ONTARIO

REPORT OF THE COMMISSIONER

under the designation

FAME INQUIRY

in respect of the affairs of

FARMERS' ALLIED MEAT ENTERPRISES CO-OPERATIVES LIMITED

August 19, 1965.

His Honour the Lieutenant-Governor in Council,
Province of Ontario,
Parliament Buildings,
Toronto, Ontario.

Your Honour:

I have the honour to submit to you herewith my report in respect of the "Fame Inquiry" dealing with the affairs of Farmers' Allied Meat Enterprises Co-Operative Limited.

The matter was referred to me pursuant to the provisions of The Public Inquiries Act, Chapter 323 of the Revised Statutes of Ontario, 1960, and has been dealt with in accordance with the provisions of that Act.

Evidence and argument in respect thereof were heard by me at Milton over a period of fifteen days between the 10th of May and the 25th of June, 1965. McLeod A. Craig, Q.C., Commission Counsel, was of invaluable assistance in his capable preparation, presentation of the evidence, and argument. Mr. John C. Newland, a Chartered Accountant from the firm of Peat, Marwick, Mitchell & Company, who had been engaged to investigate the financial matters with respect to the Farmers' Allied Meat Enterprises Co-Operative Limited, was of great help in the inquiry.

Yours faithfully,

Campbell Grant

Campbell Grant.

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LIST OF EXHIBITS FILED DURING THE HEARING

1. Royal Proclamation appointing The Honourable Mr. Justice Grant to enquire into the affairs of FAME.
2. Letter from the Ontario Farmers' Union to The Honourable William A. Stewart, Minister of Agriculture, dated January 13th, 1965.
3. Resolution "Re Investigation by Ontario Government into Organization and Operation of FAME" approved by Ontario Federation of Agriculture March 10, 1965.
4. Statement by The Honourable John Robarts, Q.C., Prime Minister of Ontario, concerning FAME Inquiry, dated March 10th, 1965.
5. Series of documents concerning the business of FAME filed with Deputy Provincial Secretary under his seal dated May 5th, 1965.
6. (a) FAME Minute Book from Aug. 25, 1960 to June 30, 1961.
   (b) FAME Minute Book from July 10, 1961 to June 26, 1963.
   (c) FAME Minute Book from July 31, 1963 to March 9, 1965.
7. Minutes of Building, Debenture, Executive, Livestock Procurement, Organization, Packaging, etc., Policy and Public Relations Committees of FAME.
8. Minute Book of FAME Annual and Special General Meetings from April 7th, 1961 to January 15th, 1965.
9. Copy of FAME Statement of Receipts and Disbursements from inception to March 31st, 1965.
10. Letter dated February 27th, 1961 from Ward, Welch & Co., Chartered Accountants, to Mr. Dickey, Secretary Treasurer of FAME re the need for proper records, etc.
11. Condensed Balance Sheet and Statement of Profits and Losses of the F. W. Fearman Co. for August 29, 1964 and for 6 years ended August 31, 1964 respectively.
12. Agreement dated August 24th, 1964 between E. R. Gunner and FAME re purchase of shares of the F. W. Fearman Co.
13. Copy of Mortgage between F. W. Fearman Co. and Winmor Feed Co., dated September 21st, 1964.
14. Cash Flow Chart of F. W. Fearman Co. for 10 periods ending August 29, 1965, Balance Sheet (projected) for 10 periods ending August 28, 1965, and 4 projection charts.
15. 13 Sales Projection Charts showing 10 periods from December 19th to August 8th.
16. Agreement of E. R. Gunner with Fame, dated December 3rd, 1964 to hold meeting of Directors and Shareholders of F. W. Fearman Co., etc.
17. Promissory Note dated August 31, 1964 and due November 30, 1964 for $1,000,000 payable by Fame to E. R. Gunner.

18. (a) (b) (c) (d) (e): Auditors Reports dated December 9, 1964, November 14, 1963, November 23, 1962, November 21, 1961 respectively, and Balance Sheet as at October 1, 1960 of Fearman Co. (prepared by Clarkson, Gordon & Co., C/A.).

19. Minutes of several meetings of Directors and shareholders of F. W. Fearman Co. from August 31, 1964 to December 2, 1964 plus copies of resignations and "By-Law 159".

20. Agreement between F. W. Fearman Co. and P. Bourdon, dated October, 1964 re obtaining services of P. Bourdon as Consultant.

21. Indenture dated January 14, 1965 (Release) between F. W. Fearman Co. and P. Bourdon.

22. Blank forms of Bank of Nova Scotia re obtaining a loan.

23. Blank forms of Bank of Nova Scotia re Assignment of Book Debts, etc.

24. Blank forms of Bank of Nova Scotia (hypothecation).

25. Letter from Bank of Nova Scotia to C. W. McInnis dated October 20, 1964 re transference of Fame share and debenture subscriptions to Fearman Co.

26. Letter from C. W. McInnis to Bank of Nova Scotia dated October 23, 1964, re their letter of October 20, 1964, (Exhibit 25 above).

27. Letter from Treasurer of Fame to Mercantile Bank dated August 19, 1964 re Fame's undertakings if 90-day loan of $100,000.00 granted.

28. Cheque to Mercantile Bank for $100,000.00 signed by McInnis and Treasurer of Fame and dated August 31, 1964.

29. Mercantile Bank Guarantee Bond dated August 29, 1964 and signed by the Directors of Fame.

30. Feasibility Report re plant cost estimates, working capital, potential savings, etc.

31. Letter from Troy & Stalder, Architectural Consultants, to McInnis dated February 27, 1963 re method of tendering re construction.

32. Fearman Co. Trading Statement, Statement of Expenses and Interim Balance Sheet dated June 6, 1964.

33. Letter from Willard National to McInnis dated September 23, 1964 re Standby Commitment for Mortgage Loan.

34. Letter from Putney, Twombly & Co., Counsellors at Law, New York, to McInnis, dated November 10, 1964 re Willard National's refusal to loan sum.

35. Indenture dated December 2, 1964 between Fame and First Spice Mixing (Sales Co.) Canada Ltd.

36. Financial Statement and Cheque dated December 22, 1964 payable to Fame ($68,762.45) for First Spice Mixing Co.

37. Series of 5 letters from December 28, 1964 to April 13, 1965 between Hume, Martin & Allen (Lawyers) and Fame re mortgage loan.

38. Salesmen's overdrawn debenture accounts as of December 31, 1964.

39. Form letter from Fame to shareholders dated December 11, 1964 re Gunner's offer of chance to redeem, etc., plus blank promissory note.

40. Letter dated January 4, 1965 from C. D. Corrigan, Debenture Supervisor, to E. Walton, Fame Treasurer, plus 3 Debenture Sup's. Expense Reports.

41. Cheque dated September 21, 1964 from Fame to Willard Securities for $20,000.00.

42. Pencilled jottings of finances.

43. 3 letters (Nov. 24/61; Nov. 30/61; Dec. 4/61) between Troy & Stalder and Ont. Assoc. of Architects re practice of architecture in Ontario.

44. Agreement between Fame and Troy & Stalder dated March 22, 1962, re plans for construction.

45. Copy of The Architects Act, 1960 R.S.O. Chapter 20.

46. Forms relating to Group Insurance by North American Life & Casualty Co. effective date: June 15, 1963.

47. Fame Debenture Application Form (blank).

48. Agreement dated August 5, 1964, between E. R. Gunner and Fame re sale of Fearman Co. shares to Fame.

49. Memorandum from "W.J.W." to "C.M.M." re Fame share purchase agreement. (memo. dated August 13, 1964).

50. Letter from W. J. Whittaker to McInnis dated August 18, 1964 re purchase of Fearman Co.

51. Agreement dated (blank) day of August, 1964, between E. R. Gunner and Fame re purchase of Fearman Co. shares (copy).

52. 3 Accounts for services rendered by Wardlaw & Whittaker to Fame (Nov. 4/64; Dec. 1/63; Dec. 22/63).

53. Letter from Wardlaw & Whittaker to Fame dated November 4, 1964 re purchase of shares from E. R. Gunner.

54. Escrow Agreement to Fame by E. D. Hickey (Solicitor for Fearman Co.) dated August 21, 1964.

55. Letter from Wardlaw & Whittaker to Fame dated August 26, 1964, re purchase of shares of Fearman Co. by Fame.

56. Letter from Wardlaw & Whittaker to Fame dated December 8, 1964 re report on Fearman Co.

57. Resolution re down payment of $300,000 and seeking of supplementary finances for $1,000,000 balance.

58. Letter from Wardlaw & Whittaker to C. W. McInnis dated November 19, 1964 re questions of tax involved in purchase of F. W. Fearman Co., etc.

59. Draft report on the relationships of O.F.A. with Fame (addressed to "The Ontario Farmer".

60. Report entitled "A Need for Unity and Strength" addressed to the Board of Governors of the O.F.A. re Fame Directors.

61. Report of O.F.A. to its members and Presidents of member organizations re O.F.A.—Fame meeting held Feb. 24, 1964.

62. Booklet setting forth the objects and By-laws of The Ontario Federation of Agriculture.

63. Pamphlet answering questions about the Co-Operative Union of Ontario.

64. Minutes of Meeting of Provincial Co-Op leaders of Ontario convened by the Co-Op Union of Ontario, Dec. 28, 1964.

65. Agreement between Troy & Stalder as "Meat Packing Consultants" and Fisher, Onasick & Co. (Architect & Engineers) re Fame building.

66. Letter from Fisher (of Onasick, McMurtry & Fisher) to C. W. McInnis, dated July 9, 1962, re Ont. Water Resources decision on Sewage Disposal.

67. Letter from Onasick, McMurtry to McInnis dated Aug. 8, 1962, re obtaining services of Troy & Stalder as Architects & Engineers.

68. Letter from P. B. C. Pepper, Q.C. to C. W. McInnis, dated February 28, 1963, re payment of Fame's account with Onasick, McMurtry.

69. Letter from P. B. C. Pepper, Q.C. to Troy & Stalder, dated February 28, 1963, re Troy & Stalder's account with Onasick, McMurtry.

70. Plans drawn up by Gibb, Underwood, McLellan and Assoc. (in association with Troy & Stalder) for the Ayr Plant.

71. Additional Plans for the Ayr Meat Packing Plant drawn up as in Exhibit 70 above.

72. 1964 Annual Report of the Co-Operative Federee de Quebec.

73. Pork Butchering Chart published by the Canada Department of Agriculture.

74. Memo from C. D. Corrigan to Fame dated May 16, 1963, re Debenture Financing.

75. Pamphlet entitled "Invest in Your Future" with Debenture Application Form.

76. Ring Binder setting out details of the Fame Organization, its purpose, plants, progress, future.

77. Report from C. D. Corrigan to Fame Directors, dated September 26, 1963, re sale of debentures as of September 23, 1963.

78. Pamphlet describing Fame (organizational).

79. Pamphlet describing Fame, its principal objectives, etc.

80. Certified copies of Reasons of Chairman of Ont. Sec. Commission re Fame, Order of said Chairman, 3 letters re Fame, Memo to A.G. & Order of Vice-Chairman of O.S.C.

81. Letter from H. J. Schmidt (Fame Director) to Mr. H. Young (Consumer Co-Op, Kansas City, Mo.) dated June 3, 1963 re J. Troy's qualifications.

82. Letter from H. Young to H. J. Schmidt dated June 7, 1963 in reply to Exhibit 81 above.

83. Letter from H. J. Schmidt to Fame Board of Directors dated August 19, 1963 re his position on building.

84. Reproduction of editorial from "Co-Op Commentary" re "Thoughts on Fame" by Ernest Page.

85. Fame Report and Financial Programme prepared by Sheppard, Cartledge & Co., Chartered Accountants dated March 22, 1963.

86. Revision of Financial Programme (Exhibit 85 above) dated August 31, 1963.

87. List of Sales of Debentures, by Counties, as of November 30, 1964.

88. Series of 5 letters between Mr. M. A. Craig, Q.C., Counsel for The Commissioner, & Stern, Harris & Co., Lawyers for Troy, re his attendance at Royal Commission.

89. Audit of Fame Accounts dated September 8, 1961, by Ward, Welch & Co.

90. Auditor's Report to Shareholders of Fame, dated September 18, 1962, by Ward, Welch & Co.

91. Auditor's Report to the Shareholders of Fame, dated August 28, 1963, by Ward, Welch & Co.

92. Report and Statements of Fame dated November 5, 1964, prepared by Sheppard, Cartledge & Co.

93. Auditor's Report on Fame dated October 24, 1960 for period ending October 7, 1960, prepared by Ward, Welch & Co.

94. Auditor's Report on Fame dated September 8, 1961, for period ending June 30, 1961, prepared by Ward, Welch & Co.

95. Auditor's Report on Fame dated October 4, 1962, for period ending June 30, 1962, prepared by Ward, Welch & Co.

96. Auditor's Report on Fame dated August 28, 1963, for period ending June 30, 1963, prepared by Ward, Welch & Co.

97. Auditor's Report dated June 30, 1964, for period ending June 30, 1964, prepared by Sheppard, Cartledge & Co.

98. Financial Data of F. W. Fearman Co. as at August 31, 1964 (Assets, Liabilities, Cost for new Plant).

99. Series of 5 letters between M. Becker, Sec'y.-Treas. of Fame, and L. Harman, Gen.-Sec'y. of U.C.O. re future of Fame, & U.C.O.—Fame Union.

100. 10 Questions compiled by A. R. Service which he put to the Fame Board of Directors re the purchase of Fearman Co.

101. Report by D. D. Monieson, Associate Professor of Marketing, to Ont. Hog Producers Assoc. Board of Directors re integration by O.H.P.C.

102. Letter from C. W. McInnis to W. C. Archibald, dated July 24, 1964, re the latter's success in selling Fame shares and debentures.

103. Press clipping from "Farmer's Advocate" for February 24, 1962 re O.F.A.—members' meeting at which O.F.A.-Fame relationships were discussed.

104. Press clipping from "Exeter Times-Advocate" for March 12, 1964, headed "H.F.A. raps enquiries into Fame."

105. Press clippings from "Shelburne Free Press & Economist" for February 19, 1964, re location of Fame Plants.

106. Press clipping from "Alliston Herald" for March 1, 1962, headed "Farmer Co-operation in processing endorsed by O.F.A."

107. Press clipping from "Dunville Chronicle" for February 15, 1962, headed "Co-operative processing plants received approval by O.F.O.A."

108. Press clipping from "Lindsay Watchman Warder" for December 4, 1963, headed "No place for Fame" (referring to lack of action at Oakwood site).

109. Appraisal of the F. W. Fearman Co. plant dated August 27, 1964, made by Cooper Appraisals Ltd.

110. Letter from President of N.S. Co-Op. Abattoir to M. Becker (Fame President), plus 2 appendices re N.S.C.A. financing and livestock production.

111. Resume of Mr. R. G. Good's part in Fame, dated June 14, 1965, plus open letter from R. S. Staples (Fame) to Co-Op leaders.

112. Resolution re Fame, approved by members of Ontario Federation of Agriculture on March 10, 1965.

113. Memo from H. M. Arbuckle to Fame Board Members re decisions reached by Planning Committee on conference on meat pack. operations.

114. Letter from J. Black to The Hon. Mr. Justice Grant dated June 16, 1965, re results of Weppler Farm Syndicate Mtg., etc.

115. Memo to Mr. Varcoe from Mr. McKeown dated August 28, 1964, re Fame purchase of shares of Fearman Co.—closing.

116. Contract between Fame and Bourdon re the hiring of Bourdon as consultant.

117. Charter (letters patent) of F. W. Fearman Co., dated November 9, 1920, August 10, 1939, August 24, 1951, February 3, 1964.

118. Letter from Co-Op Federee to The Hon. Mr. Justice Grant, dated June 23, 1965 re facts on net profit for Abattoir Div.

119. Auditors' Report and Financial Statements for Fame made June 24, 1965 by Peat, Marwick, Mitchell & Co.

120. Letter from Fame to all shareholders dated December 11, 1964 re Gunner's offer of redemption.

121. Mr. Newland's draft estimate of cost of raising capital funds for Fame.

122. Brochure describing Fame at the time of its inception.

123. Written brief to Fame Inquiry by Directors of Normandy Township Federation of Agriculture.

124. Written brief to Fame Inquiry from "Grey County Branch, Farmer's Allied Meat Enterprises."

TERMS OF REFERENCE

Pursuant to the terms of the Proclamation dated the 9th day of March, 1965, I, the Commissioner appointed therein pursuant to the provisions of Chapter 323 of The Revised Statutes of Ontario, 1960, fixed Monday, the 10th day of May, 1965, at the Court House at Milton as the time and place to hear evidence herein and such Inquiry continued on different dates until the 25th day of June.

I was directed under the designation of "Fame Inquiry" to investigate, inquire into and report upon, (a) the affairs of Farmers' Allied Meat Enterprises Co-Operative Limited, having regard to (i) its shareholders, objects and purposes; (ii) the raising of its capital and any additional moneys subscribed to sustain its operations, and the disposition thereof; (iii) its property, the conduct of its operations, its financial situation and investments; (b) whether or not Farmers' Allied Meat Enterprises Co-Operative Limited has conducted its affairs in accordance with the Statutes of Ontario and the Regulations passed thereunder and, in particular, the provisions of Part V of The Corporations Act, R.S.O. 1960, Chapter 71; and (c) the relation of Farmers' Allied Meat Enterprises Co-Operative Limited to the farming community and farm organizations.

During the course of the hearing Counsel appeared for the following interested parties, namely,

McLeod A. Craig, Q.C., Commission Counsel.

R. F. Wilson, Q.C., and E. B. Russell, for Fame.

D. M. Mann, for F. W. Fearman Company Limited.

M. D. McRae, for Directors McInnes, Webster, Hemingway, A. Anderson, Service and McGillivray.

P. B. C. Pepper, Q.C. and J. D. Sharples, for Wardlaw & Whittaker.

W. B. Ivany, for Knud Simonsen.

LIST OF WITNESSES HEARD

During the course of the hearing, the following witnesses were heard:—

McCormick, Gordon Arthur
Shillabeer, Mrs. Mina
Newman, John Charles
Ritchie, David Frederick
Meek, William Clifford
Much, Robert
Arnold, Charles William
Gunner, Ernest Robert
Walton, Edward
Miller, John Douglas
Bateman, Thomas Samuel
Whittaker, Walter John
McKeown, Charles Michael
Carbert, Robert William
Wilkie, George Thomas
Fisher, Frederick Richard
Sladek, George John
Bourdon, Paul
Corrigan, Colin Wendell Martin
Dion, Pierre Paul
Bray, Harry S.
Simpson, James Orville McKnight
Ingles, John Lindsay
Schmidt, Harold John
Bishop, Wilfred L.
MacPherson, Gilbert
Shepherd, Melvin Edward
Pridon, Ormond John
McInnis, Charles William
Service, Archie Reid
Webster, Leslie A.
Leitch, Kenneth
Leitch, Duncan
Leitch, Hugh
Milton, William D.
Myers, Henry W.
Emerson, Eric R. W.
Edwards, Stanley
Prudeau, Adelard
Mills, Morely F.
Archibald, Wyman C.
Webster, Ray
Hemingway, Joseph C.
Anderson, Louis A.
Frey, Clayton
Gervais, Wilbert K.
Carmichael, Dougal
Johnston, Clifford Howard
Baker, Merlyn
Becker, Melvin S.
Anderson, William C.
McGillivray, John A.
Good, Robert G.
Ergot, Raymond A.
Musgrave, Arthur H.
Rintoul, Alva
Bourdeau, Honore
Anderson, Raymond E.
Good, Robert George
Ergot, Raymond Alvin
Simonsen, Knud
Laventure, Leonard
Black, John
Wettlaufer, Lorne J.
McDonald, Richard L.
Varcoe, John F.

ABBREVIATIONS

During the course of the evidence reference was made to various Farm Co-Operative Associations by means of initials. I will use such abbreviated forms of reference for the purpose of brevity. A list thereof is as follows:—

COPACO—The First Co-Operative Packers Limited, Barrie.

U.C.O.—United Co-Operatives of Ontario.

U.D.P.C.—United Dairy & Poultry Co-Operative.

C.O.I.A.—Co-Operators' Insurance Association

O.C.C.S.—The Ontario Co-Operative Credit Society.

O.F.A.—The Ontario Federation of Agriculture.

O.H.P.M.B.—The Ontario Hog Producers Marketing Board.

O.H.P.M.A.—The Ontario Hog Producers Marketing Association.

FAME—Farmers' Allied Meat Enterprises Co-Operative Limited.

CO-OP FEDEREE—Co-Operative Federee de Quebec.

REASONS FOR INQUIRY

The occasion that made such Inquiry essential was the concern of many of the farmers and others of the Province of Ontario who had invested money in and were vitally concerned with the affairs of such co-operative company. In August of 1964, Fame had purchased all issued capital stock of Fearman's Limited, a corporation which had owned and operated a meat packing plant at the Town of Burlington in the County of Halton. After operating such business for a period of three months, it appeared that all such shares had been forfeited to the vendor thereof who repossessed such business and all its assets and Fame thereby lost almost all its assets and the moneys which its members or shareholders had invested in its shares or debentures in a sum amounting to approximately $2,500,000. As much doubt existed as to the propriety of such purchase and the handling of the affairs of Fame, it appeared urgent that the true facts should be ascertained.

A meeting of some four hundred delegates representing the 13,000 farmer shareholders of Fame met at Brampton in the County of Peel on January 15th of this year. At such time they passed a resolution requesting the Government of Ontario to conduct a complete investigation into the affairs of Fame and its relations with other farm organizations. Such meeting passed a further resolution that they continue the programme that had been initiated by Fame.

On the 12th day of January of this year, the Board of Directors of the Ontario Farmers Union met at Guelph and caused a letter (Exhibit 2) to be delivered to the Hon. William A. Stewart, Minister of Agriculture for Ontario, and to each member of the Ontario Legislature, requesting such an inquiry. Such request read in part as follows:—

> "As directed by the Provincial Board of Directors of the Ontario Farmers' Union, meeting in Guelph on January 12, 1965, we request the Ontario Government to conduct a judicial inquiry into all aspects of the operations of Farmers' Allied Meat Enterprises since its inception four years ago.
>
> Therefore, in view of the many and varied statements, which may or may not be rumours, in circulation across the Province of Ontario and in the interest of approximately 13,000 people who invested their money in good faith in hopes of improving the economic plight of the farmer and finally in the interest of organizzed agriculture of the future and programs they may promote, we urge you to ask our Government to establish a judicial inquiry immediately and let the actual facts be made public."

On the 10th day of March, the Ontario Federation of Agriculture passed a resolution (Exhibit 3) and forwarded it to the Ontario Government. It was in the following words:—

> "Whereas the directors of Farmers Allied Meat Enterprises Co-Operative, Limited have requested the Government of Ontario to conduct

an investigation into the organization and operation of Farmers Allied Meat Enterprises Co-Operative, Limited to date;

And whereas the Government of Ontario has acceded to this request;

And whereas the Government of Ontario has stated that no consideration of financial support for Fame can be given until this investigation has been completed;

Therefore be it resolved that the Ontario Federation of Agriculture press the Government of Ontario to move quickly in this investigation in view of the urgency of the position in which Fame finds itself at the moment.

Approved at a meeting of
Members of the Ontario Federation
of Agriculture, held in Toronto
on March 10, 1965."

The Hon. John P. Robarts, Prime Minister of Ontario, on the 10th day of March, made the following statement to the Ontario Legislature (Exhibit 4) :—

"Mr. Speaker:

Honourable Members will no doubt recall that on March 2nd, 1965, in reply to a question directed to me by the Honourable Member from Grey South before the Orders of the Day, I made a statement respecting Farmers' Allied Meat Enterprises Co-Operative Limited, commonly referred to as FAME.

Since this matter has been much in the public press in recent days and there have been certain recent developments, it may be useful to summarize the sequence of events up to the present time.

The Farmers' Allied Meat Enterprises Co-Operative Limited was incorporated on September 6th, 1960. The announced purpose of this organization was to build a chain of seven meat packing plants in Ontario, through which they hoped to process a substantial portion of the Ontario livestock.

Subsequently, the Board of Directors found themselves in financial difficulties and on December 30th, 1964, a Committee from the Board of Directors of FAME met with the Minister of Agriculture and leaders of some other farm organizations of this Province. At this meeting the Board of Directors requested financial assistance from the Province.

Subsequently, after a careful analysis of the material submitted to him at the meeting, the Minister of Agriculture wrote to FAME expressing the opinion that financial assistance, either through The Co-operative Loans Act or through the Government of Ontario, could not be recommended on the basis of evidence provided by FAME's representation.

Then, Mr. Speaker, on January 15th, 1965, a special general shareholders' meeting of FAME was held in Brampton at which several resolutions were passed, including one which read: "We request the Ontario Government to conduct a complete investigation on the affairs of FAME and its relation with other farm organizations."

Following a request, the Minister of Agriculture, the Attorney-General and I met with the executive of FAME on February 8th at which the resolutions passed at the special general shareholders' meeting were formally presented and thoroughly discussed.

The financial support requested was a direct investment or guarantee of $2.5 million to be secured by a first mortgage of real estate, on the understanding that an additional $750,000 would be raised from the agricultural producers of this Province.

At the conclusion of the meeting, it was recommended to the executive that they investigate the possibility of negotiating with other farm organizations for financial support and this the executive indicated it was quite prepared to do. I told the Board of Directors that no consideration could be given to the request for financial assistance from this Government under the present circumstances.

On February 11, the President of FAME reported that negotiations with other organizations were under way but asked for an indication as to whether or not the request for financial assistance would be acceded to by the Government.

In the meantime, Mr. Speaker, the Government was closely studying this matter, with the result that on February 25th I wrote to the President of FAME, concluding with the following three paragraphs:

> "After due consideration of these resolutions of the shareholders of FAME, your personal submissions and other submissions, it has been decided to accede to your shareholders' request that this Government conduct a full investigation of the affairs of your organization.
>
> Any decision about the possibility of this Province guaranteeing a bank loan would, of course, have to await the completion of this investigation.
>
> The necessary arrangements are now being made for the conduct of this investigation and I expect to be in a position to announce this in detail in the very near future."

The agricultural community is an essential part of the economy of this Province, and in respect of Farmers' Allied Meat Enterprises Co-Operative Limited, it would seem desirable to ascertain that it has conducted its affairs as a co-operative corporation and has otherwise complied with the law. The Prime Minister then advised of the issue of this Commission and terms of reference.

Inasmuch as this Commission is issued pursuant to The Public Inquiries Act, R.S.O. 1960, C. 323, it follows that the Commissioner will have the power of summoning any persons and requiring them to give evidence on oath and produce such documents and things as he deems requisite for the full investigation in the matter on which he is appointed to examine.

In addition, all Government Departments, Boards, Commissions, Agencies and Committees will assist the Commissioner to the fullest extent in order that he may carry out his duties and functions and he will have authority to engage such counsel, research and other staff and technical advisors as he deems proper."

FAME'S INCORPORATION

FAME was constituted a corporation by Letters Patent dated the 6th day of September, 1960, pursuant to the provisions of Part V of The Corporations Act which is now Chapter 71 of The Revised Statutes of Ontario, 1960. Such part of the said Act relates to co-operative corporations and provides for the particular privileges, obligations and rights of such a corporate body.

The eleven applicants for such incorporation were all members of the Ontario Hog Producers Association. Those who will be particularly referred to herein were Charles William McInnis, of the Township of Matilda in the County of Dundas; Clayton Frey, of the Township of Sarnia in the County of Lambton; Wilfred L. Bishop, of the Township of North Worwich in the County of Oxford; and Melvin S. Becker, of the Township of North Dunfrey in the County of Waterloo.

The objects of such incorporation were stated in such Charter to be as follows:

> "(a) to assemble, receive, buy, handle, slaughter, process, manufacture, warehouse, store, grade, transport, ship, sell, market, export and generally trade and deal in livestock and meat products or other farm produce, either as principal or agent, broker, mercantile agent, factor or attorney in fact, and to do any other act or undertaking incidental thereto;
>
> (b) To construct, purchase, acquire by lease or otherwise, operate and conduct all or any facilities for warehousing, storing, slaughtering, processing, manufacturing, handling, transporting and trading or otherwise dealing in livestock and meat products or other farm produce, as principal or agent, broker, mercantile agent, factor or attorney in fact or incidental to or connected with the assembling, storing, handling, dealing with, marketing or disposing of farm produce;
>
> (c) To buy, manufacture, produce, slaughter, process, adapt, prepare, sell and deal in goods, wares and merchandise of every kind and description used in agriculture or farming or by consumers, including fertilizers, feed, seed, containers, machinery and farm implements, petroleum products and other commodities incidental to farming and hardware, lumber, building materials, fuel, dry goods, groceries and other household goods;
>
> (d) To provide any service in connection with the production and slaughtering and marketing of farm products and with the improvement of land, buildings or equipment for farming purposes, including the clearing and drainage of land;
>
> (e) To take or otherwise acquire and hold membership in any other association having objects altogether or in part similar to those of the Company or carrying on any undertaking capable of being conducted so as directly or indirectly to benefit the Company;

(f) To carry on a rendering business in all its branches;

(g) To purchase or otherwise acquire, sell or otherwise dispose of, hold, own, manufacture, produce, export, import and deal in, both at wholesale and retail, as a broker, principal or agent and upon commission, consignment or otherwise, animal foods, tallow, fat, fertilizers, hoofs, skins, hides, fur, leather, manures and other animal products and dairy farm produce, garden produce and vegetable products of all kinds; and

(h) To manufacture, refine, purchase, sell and deal in all kinds of oils and oleaginous and saponaceus substances and all kinds of unguents and ingredients."

The authorized capital of the company was $10,000,000 divided into 100,000 co-operative shares with a par value of $100 each. The first directors of the company were by such charter declared to be all the said applicants and the company was ordained and declared to be subject to Part V of such above mentioned Act.

CONSTITUTION

The constitution provides that there shall exist seven districts in the Province of Ontario. Each such district is made up of a number of adjoining counties. Each county is entitled to attend general or annual meetings in the number of one delegate for each 100 shareholders or members and one alternative delegate, but in no case shall each county within a district be entitled to less than two of such delegates and alternates. At all general meetings of the Association, whether annual or special, each duly appointed delegate present in person at the meeting shall be entitled to one vote only irrespective of the number of shareholders in the county appointing such delegate. Where a delegate is not present at the time a vote is taken, the alternate delegate may vote in his place. No shareholder is entitled to vote at any general meeting of the co-operative unless he is a duly appointed delegate or alternate representing a county of shareholders. Voting by proxy is not allowed at any meeting except that a corporate shareholder may appoint under its corporate seal one of its officers or directors to attend and vote on its behalf at shareholders' meetings.

The by-laws provide that at all general or annual meetings of the co-operative, the powers of the shareholders shall be vested in such delegates.

At the first meeting of the delegates, two directors were to be elected for each district and four as directors at large with nine thereof to serve two years and nine to serve one year or until their successors were appointed. At each annual meeting thereafter, directors were to be elected so as to maintain two representatives at least from each of the seven districts and two directors at large to fill the positions of those whose terms of office were about to expire so as to maintain at all times a total of eighteen directors. The qualifications of each director shall be that he: (a) hold at least one share of the capital stock of the co-operative or be a director or officer of a corporate shareholder; (b) be a delegate representing a county of shareholders at the time of his election to office, but that he need not be a delegate of a county of shareholders to serve the unexpired portion of his term as a director. A shareholder elected as a

director at large need not be necessarily a delegate representing a county of shareholders at the time of his election to office; (c) not be a candidate to any political party; (d) not to be a representative to the Legislative Assembly or House of Commons.

The powers of such directors to transact the business of the Association is set out in the by-laws as follows:

1. The business of the Co-Operative shall be managed by a Board of eighteen Directors who may exercise all such powers and do all such acts and things as may be exercised or done by the Co-Operative and are not the by-laws of the Co-Operative or any statute especially directed or required to be done by the Co-Operative at the general meeting of the shareholders. The Board of Directors elect a President, 1st Vice-President, a 2nd Vice-President, Secretary, a Treasurer, and if deemed advisable an Assistant Secretary and an Assistant Treasurer.

The only committee provided for by the by-law is the Executive Committee and paragraph 13 provides therefor as follows:

> "If the number of Directors is more than six, the Directors may, by resolution entered upon the minutes of the Co-Operative, elect from among their number an Executive Committee consisting of not less than three and to delegate to the Executive Committee any powers of the Board, subject to the restrictions, if any, imposed from time to time by the Board of Directors."

CHARACTERISTICS OF A CO-OPERATIVE ORGANIZATION

A Co-Operative has been described as a voluntary, democratically controlled association of persons who conduct an enterprise with the object of supplying themselves with commodities or services, on the basis that they should share any surplus created in carrying on the enterprise substantially in proportion to the use they make of the association. It may better be described by comparison with a joint stock company operated for profit. The differences were set out by Fabio Monet, Q.C., Chairman of the Tax Appeal Board, in the case of LA SOCIETE CO-OPERATIVE AGRICOLE DU COMTE DE CHATEAUGUAY v. THE MINISTER OF NATIONAL REVENUE (1951) D.T.C. 273, where he says:—

> "One of the fundamental differences existing between a joint stock company and a co-operative association is that in the first case we have a corporation set up for a speculative purpose and in the second case we have an organization without any speculative purpose created as an instrument to provide for needs and requirements. Another difference is found in the reasons for setting up a joint stock company and for setting up a co-operative; in the first case, the shareholders composing a company are mostly unacquainted with the Officers of the company, and indeed are unacquainted with one another; they may be spread over the four corners of the world, they do not participate directly in the administration of the company which has been formed with a view to making profits; they have made a speculative investment which is returned to a certain number of persons having identical or analogous interest and who usually reside in the same area, or in a rather restricted area, group themselves together; they have pre-existing needs and they associate together for the very purpose of creating an instrument which will enable them to provide for such needs."

The primary distinction of a Co-Operative is that it does not have intent to make profit for itself but its purpose is to serve its members and obtain the greatest return for them. Any profit arising from its operations are funds which belong to them as distinguished from a non co-operative where the gain is the property of the company. For itself there exists no speculative or profit making element. In this inquiry we are concerned only with a marketing Co-Operative or one which sells or processes and disposes of its members' produce as distinguished from one merchandising or selling products to its members. I shall therefore make reference only to such an organization without consideration of one where the association is purchasing on behalf of its members. The clearest form of a co-operative society is where the member pays the organization a fee for disposing of his product. The most frequent form of the relationship exists where the Co-Operative purchases the product from its member and either sells it in the same state or further processes it and disposes of the same. While a Co-Operative need not be incorporated, it is now customary to have it so organized because of the protection that such character provides against personal liability and the advantages in carrying on the business. Such

organization does not deter the association of members from being a Co-Operative providing it otherwise retains the characteristics of such an organization. In the case of THE HORSE CO-OPERATIVE MARKETING ASSOCIATION LIMITED v. THE MINISTER OF NATIONAL REVENUE (1956) Exchequer C.R. 393 at page 414, Thorson, P. stated:—

> "When a group seeking to enjoy the benefits of a co-operative enterprise become incorporated, the corporation is merely a legal entity which represents the aggregate of its members. The mere incorporation does not constitute it a trading corporation and it may still remain a truly co-operative association if it be organized and carry on its operations on a non profit co-operative plan for the purpose of disposing of its members' produce or livestock. In such case the corporation is simply the means or machinery for accomplishing by co-operative action the purpose which they could not achieve individually; namely, an advantageous disposal of their products. As the shareholders or members of such an association deliver their stock or produce to the association, they do not sell them to the co-operative society in the ordinary sense but deliver them to it for marketing or processing by it on their behalf and for them."

From the time of their inception, certain principles have been regarded as fundamental and basic in this type of organization. The more important of these are: (1) It is governed by the members on the democratic principle of one vote for each member. This differs from a profit organization where the shareholder usually has a vote for each share he owns. (2) A shareholder is entitled to only a fixed percentage by way of interest on the capital he invests. (3) Patronage dividend is the amount of the net surplus returned to the member as savings returns or dividends in proportion to his patronage. This is intended to abolish what is commonly called profit by returning it to the persons who created it through their business with the Co-Operative. By this means, it is sought to organize the particular industry so that it is carried on under the control and for the benefit of those who patronize it. (4) Co-Operatives are open to all persons but, in practice, membership in a marketing co-operative is usually confined to those who have products to sell through its channels. (5) Subject to some exceptions, business is done on a cash basis. (6) A percentage of surplus savings is frequently used for educational and advisory purposes relating to Co-Operatives and their ideals. (7) The Co-Operative sells goods and provides services at a reasonable market price.

Two types of arrangement exist in the structure of central Co-Operatives. The one is the federated type in which autonomous locals create a central agency as in Quebec Federee and the other is the centralized type where the parent Co-Operative creates branches to which members belong. The former appears to be more suitable where the subject of the business is farm supplies or consumer goods. The latter functions better for marketing of the consumer's products. There is a general movement in Co-Operatives towards integration into larger business units. Smaller Co-Operatives are finding it necessary to join with others to create greater efficiency and better services. The lone Co-Operative attempting to function separate and apart from other similar associations finds it difficult to fully serve its members. Unity, co-ordination and collaboration among the various Co-Operatives is essential to success in the pursuit of their

objectives. Concentrated competition and the necessity of providing a constant satisfactory product to the markets which are becoming more demanding, require a greater unification of the efforts of Co-Operatives. Grouping together for greater strength and efficiency has been an important characteristic of Canadian Co-Operatives. It is the obligation of a Co-Operative to protect or maintain the market for the farmer's product and to improve the sale thereof. This double duty narrows the margin between the purchase and selling price and seriously affects the capacity of the Co-Operative to show an earning.

A commodity marketing board such as the Ontario Hog Producers Marketing Board that operates pursuant to legislation giving it exclusive selling authority over a product, presents problems to a Co-Operative that seeks to process and sell such products of its members. It causes it to depart from traditional co-operative practices. If, as in the case of hogs, the same must be sold through the board where the Co-Operative must purchase its supply, then unless some exemptive arrangements are made, the company may be processing any producer's hogs. This raises the question as to whether patronage returns can be paid out in proper proportion. It also introduces the element that, insofar as the farmer is concerned, it ceases to be voluntary sale on his part. The marketing co-operative and such an exclusive legislatively created selling authority however may not be incompatible but there are certain areas where conflict may arise between them.

The affairs of a Co-Operative are regulated by the statute under which it is incorporated, its memorandum of association by letters patent and its by-laws. Part V of The Ontario Corporations Act, under which Fame was given its charter, provides by Section 124(2) as follows:—

> "Except where inconsistent with the provisions of this part, the other provisions of this Act apply to a corporation to which this part applies."

By Section 287, a Corporation shall be deemed to have had from its creation the capacity of a natural person unless otherwise expressly provided in the Act or instrument which created it. By Section 22(1) thereof, certain incidental and ancillary powers are deemed to supplement those powers of the corporation set out in the letters patent or supplementary letters patent of an Ontario chartered company unless the charter itself speaks against any particular ancillary power. Section 22(1) (e) is as follows:—

> "to take or otherwise acquire and hold shares in any other company, having objects altogether or in part similar to those of the company or carrying on any business capable of being conducted so as to benefit the company."

It would appear therefore that FAME had the capacity and power to acquire or purchase shares of another corporation which is not co-operative unless the charter itself or Part V of such Act expressly provides otherwise. The charter ordained and declared that the said company should be subject to Part V of The Corporations Act. Section 133 provides that in the case of a corporation incorporated under such Part V, after setting aside certain reserves and providing for payment of dividends on the share capital at a rate not to exceed 8% per annum, the surplus arising from

the business of the company in each fiscal year shall be allocated, credited or paid to the members or shareholders in proportion to the business done by each member or shareholder with or through the corporation computed at a rate in relation to the quantity, quality or value of the goods or products acquired, marketed, handled, dealt in or sold, or services rendered by the member or shareholder or by the corporation from or on behalf or to the member of shareholder, or to the corporation, whether as principal or as agent of the member or shareholder or otherwise, with appropriated differences in the rate for different classes, grades or qualities thereof.

Subsection (2) thereof provides that the corporation may by by-law provide that part of the surplus may be allocated, credited or paid to non-members or non-shareholders at the same or lesser rate than members or shareholders. Such payments are known as patronage returns and the company may by by-law require the shareholder or member to lend to it the whole or part of such patronage dividend. Such provisions are so different from the authority of a company not organized under such part that it might well be said that such power to acquire all the shares of a non co-operative company and to control the same thereby is inconsistent with the above provisions. Although FAME would control the Fearman Company, the latter would have no right to issue or deal with patronage dividends as above. Fearman would not be subject to Part V of such Act. As far as I can ascertain, the question has not been decided in any case before the Courts. For the purpose of this inquiry, suffice it to say that some question does arise concerning the right of FAME to purchase all the shares of the Fearman Company and to continue to operate that Company in an entirely non co-operative manner.

The Co-Operative Loans Act, R.S.O. 1960, c. 67, defines a Co-Operative Association as a co-operative corporation of producers of farm products to which Part V of The Corporations Act applies and which was incorporated for the purpose of grading, cleaning, packing, storing, drying, processing or marketing farm products. Section 4 of such Act is as follows:—

> "The Lieutenant Governor in Council may make a loan to any co-operative association to enable it to carry out its objects to an amount not exceeding 50 per cent of the value of the real property of the co-operative association on which the loan is to be made, but in no case to exceed the sum of $100,000."

REASONS FOR ORGANIZATION OF FAME

Mr. McInnis states that there was not sufficient competition among the buyers of Ontario cattle, hogs, calves and sheep. One of the purposes of the organizers of FAME was to provide a purchasing power which was capable of taking sufficient of such farm livestock as it was offered on the open market or by private sale to maintain prices therefor at a stable and sufficient level and thereby to raise the price level of such farm products. A farmer-owned plant processing such livestock and selling it direct to the consumer or large retailer would provide such a purchasing power as to keep the market constant and at a higher level. Its objective would be to keep up price levels rather than making profits for the Association.

At first, McInnis and some of the Directors of the new organization felt that such purpose could be better served by FAME processing the product for the producer and charging him a fee therefor and remitting to him the balance of the proceeds of the sale of his product. In other words, FAME would render a service to its members in servicing his product rather than purchasing his livestock. There was another group who thought that this method would benefit all farmers engaged in the sale of livestock even though they were not members of FAME. Their thought was that FAME should purchase their members' livestock at prices comparable to what other processors were paying. This would leave room for greater profits and the member would be compensated by receipt of a further patronage dividend. In this way, the benefit to be derived from the activities of FAME would be enjoyed only by its own members except as to the constant maintenance of prices which would enure to the benefit of all producers.

Whether the two groups ever reconciled their difference of opinion as to these methods of procedure is not clear, but Melvin C. Becker, the present President of FAME, resigned in September of 1963 because of this difference of opinion.

Charles W. McInnis, whose home is at R.R. No. 2, Iroquois, in the Township of Matilda and County of Dundas, was probably the most active in the organization of FAME. He still lives on the farm although his son operates it; he had been active in farm organizations for over thirty years. He was on the Board of the Ontario Concentrated Milk Producers Association for thirty years and was one of the founders of The Ontario Hog Producers Association and its President until the inception of FAME. He also was on the Board of The United Co-Operatives of Ontario, the Co-Operative Union of Ontario and the Ontario Federation of Agriculture. He enjoys a unique forceable platform ability which he delights in using at farm organization meetings against any purchaser of farm products. Such gift has provided the way for his election to the various Boards above described.

He proceeds on the theory that all purchasers of farm products are enemies of the farmers, that they make tremendous profits and in his recitals thereof is not constrained by factual problems. Until his retire-

ment from the Board in December of 1964, he dominated the other members thereof and felt that important business matters of FAME should be dealt with by himself and a very few of the other members until the matter was consummated. He had or pretended to have a fear that other meat packers were constantly attempting to secure information as to FAME's plans. This caused him to refrain from discussing even with other co-operative meat packing organizations the problems of the industry and thereby deprived the organization of invaluable advice in its initiation into this rather hazardous business. He still has, even on the present Board of FAME, many persons who think he was in no way to blame for the dismal failure of the organization, but are willing to blame the debacle on other organizations. There is no doubt but that at all times he sincerely thought that the FAME programme would prosper and be a great benefit to the farmers of Ontario in the sale of their livestock.

EARLY SALE OF DEBENTURES

FAME commenced selling unsecured debentures of the corporation to the public generally shortly after its incorporation. Section 39 of The Securities Act, R.S.O. 1950, Chapter 351, provided that no person or company should trade in any security issued by an industrial company, which would ordinarily include an incorporated co-operative association, within the meaning of the Act where such trade would be in the course of a primary distribution to the puublic of such security until there had been filed with the Commission a prospectus which is required to contain a full, true and plain disclosure of many facts relating to the proposed financing and operation of the company. Such document provides some safeguard for the purchasers of such securities and is a source from which extensive information as to the company's intended operations may be obtained. It is true that FAME was required, as any other company was, and did file certain prospectus forms under the requirements of The Corporations Information Act with the Provincial Secretary, but these are not as complete as those above referred to.

Officers of FAME assumed that there was no obligation to file a prospectus with the Commission, nor to have its salesmen registered pursuant to the provisions of The Securities Act because of the fact that it intended to function on a co-operative basis. Such a conclusion was based on the following sections of such Act, which read thus:

19 (2) (1) (i) "Subject to the regulations, registration is not required to trade in the following securities,

securities of its own issue that are distributed or issued by a company to the holders of its securities as a stock dividend or other distribution out of earnings or surplus", and

19 (2) (9) "Securities issued by corporations operated on a co-operative basis as defined by Part V of The Corporations Act."

41(a) "Sections 38, 39 and 40 do not apply to trades mentioned in paragraphs 3 or 6 of subsection (1) of Section 19 nor to securities

(a) that are mentioned in subsection (2) of Section 19."

In its original prospectus filed with the Provincial Secretary on October 17th, 1960, the information given as to the securities to be sold is as follows: it is intended to raise $1,000,000 by sale of debentures in denominations of $100 or multiples thereof, carrying interest at 6% per annum and maturing ten years from the 1st day of January following the purchase. A commission of three per cent will be payable on sale of debentures. It is expected that the most of the debentures will be sold to hog producers and the funds realized will be used to organize local co-operative meat packers and to promote the sale of the products of such local co-operative meat packers.

Brochures were used in the sale of such debentures. As no share capital other than qualifying shares to directors had been issued, it necessarily followed that the debenture issue was being offered to persons who were not members or shareholders. Members of the public who had been approached to purchase such debentures complained to the Commission. That body thereupon proceeded to investigate in order to ascertain whether FAME was being operated on a co-operative basis within the meaning of the statutory exemption above quoted. At this time the only members that FAME had were the Directors to whom qualifying shares had been issued. The offering of such debentures to the public generally was an attempt to secure preliminary financing from persons who at that time at least were neither shareholders nor members. Mr. C. W. McInnis, the President, and the company's counsel were heard by the Commission. The latter came to the conclusion that at such time FAME was not being operated on a co-operative basis and so had no right to sell such debentures generally without registration or filing. It was clear that the holders of such debentures would not participate in the profits of the company.

Section 27, subsection 2, of The Corporations Act, Chapter 71, R.S.O. 1960, formerly Section 126(2) of such Act, provides as follows:—

> "A corporation may borrow money from its shareholders or members in such amounts payable on demand or at such times and either without interest or with interest at a rate not exceeding six per cent per annum, as the by-laws provide."

This section is within Part V of the Act and applicable to co-operative corporations. At this time, about $100,000 in debentures had been sold.

> Section 19 (3) (b) of the said Securities Act provides as follows:—
> "Notwithstanding subsections (1) and (2), the Commission may, where in its opinion such action is in the public interest, order that subsection (2) shall not, with respect to such of the securities mentioned in that subsection as are specified in the order, apply to the person or company named in the order."

Under the authority of such last-mentioned section, the Commission made an order on November 30th, 1960, in the following form:—

> "Whereas the above named co-operative company has made a public offer of securities, and is not at present being operated on a co-operative basis within the meaning of Section 19 (2) (1) of The Securities Act, R.S.O. 1950, Chapter 351 and amendments thereto, a ruling is made that clause (1) of Section 19 (2) of The Securities Act shall not apply to the said Farmers' Allied Meat Enterprises Co-Operative Limited. Dated at Toronto this 30th day of November, A.D. 1960. Ontario Securities Commission, O. E. Lennox, Chairman."

In other words, the ruling simply meant that FAME was deprived of the exemption above referred to which its officers thought authorized it to sell such debentures to the general public without complying with the requirements of filing the prospectus above referred to and registering its salesmen.

The effect of this order was that those selling such debentures could not do so further without such registration and filing under The Securities Act and unless FAME should file with such Commission a prospectus

setting forth all the information required by the Act. This situation required an adjustment by FAME of its method of financing.

On December 14th following, Counsel for FAME attended the Securities Commission and stated that the Co-Operative had ceased selling debentures under the debenture issue immediately after it learned of the order of November 30th, and that its Officers did not intend to proceed with its debenture issues at that time but on the contrary proposed to make a share offering of common shares as noted in its prospectus filed with the Provincial Secretary.

At that time, about $100,000 worth of debentures had been sold, but all of these moneys had been returned to the purchasers thereof. Mr. Lennox made it clear at that conference that his order was not intended to rule that Farmers' Allied Meat Enterprises Co-Operative Limited was disentitled to the exemption provisions of The Securities Act with regard to an issue and sale of common shares, but was intended only to rule that the Co-Operative was not entitled to the exemptive provisions of the Act with regard to a sale of debentures at that time in advance of a sale of common shares. It is deemed advisable in financing of co-operatives to have paid up share capital at least equal to the value of fixed assets and liabilities to shareholders plus the net worth of the company to equal liabilities to the public.

FAME on the 28th of December filed a prospectus stating that they intended to sell 100,000 common shares of the par value of $100 each, which should realize $5,000,000 over a period of the next two years and a commission was to be paid not to exceed three per cent to the agents who made such sales. At this time FAME followed the directive of the Securities Commission and discontinued its debenture sales to the general public.

The said order of November 30th has been much criticized in some of the press and otherwise. It may be that the Chairman was not correct in his letter of explanation written to Mr. Kelso Roberts, Q.C., Attorney General of the Province at that time, where in giving reasons for stating the Association was not being operated as a co-operative, he states that the borrowing powers of a Co-operative without security were limited by Section 126 of The Corporations Act to borrowing from its shareholders and members. Such section would not appear to be restrictive but on the other hand was permissive only.

The real reason that such order was issued was that FAME was not then really operating as a Co-operative. It had not yet started operation but if it were processing hogs it would have to buy such livestock from The Hog Producers' Marketing Board and not from its own members and so it could not distribute its surplus or profits as patronage returns among its members. FAME had not at that time proceeded to establish a membership by the sale of shares. Such a membership is the first essential element of a co-operative society. Without membership or shareholders it would just be another commercial company not operating under Part V of the Act. In fact, the order was a proper one and beneficial to the Association, as it caused it to proceed to procure its capital on a basis that is not so costly in that share capital would not require payment of interest and also to start the structure of the company on a basis that was more indicative of a co-operative society.

Later Mr. Becker, the Secretary of FAME at that time, wrote the Commission indicating that it was selling $3,000,000 debentures to shareholders only; he filed a prospectus in respect thereof on the 8th of May of 1962, and the Commission authorized proceeding with such sales on that basis.

In the spring of 1963, a further application was made to J. R. Kimber, Q.C., Vice-Chairman of the Securities Board, to rescind the said order of November 30th, 1960. Upon material being filed and representations made, a ruling was then given that since FAME had then qualified as a co-operative company under Part V of The Corporations Act of 1953, that the order of the Chairman of the Commission, dated the 30th of November of 1960, denying the company the exemption under Section 19 (3) (b) of The Securities Act, is no longer applicable. This then had the effect of permitting FAME to sell debentures to any person without filing a prospectus and without having salesmen registered.

By May 16th, 1962, FAME had sold a total of 5,978 common shares at $100 each to realize a total of $597,800. On that date, a further prospectus was filed with the Provincial Secretary's Office whereby it indicated that the Board had authorized an issue of debentures to the shareholders of the Co-Operative for an authorized amount not exceeding $3,000,000 divided into three series, as follows: Series A, not exceeding $1,000,000, bearing interest at five per cent per annum and issued in maturity of ten years; Series B, not exceeding $1,000,000, bearing interest at five and a half per cent per annum and issued in maturity of fifteen years; Series C, not exceeding $1,000,000, bearing interest at six per cent per annum and maturing in twenty years. By such document, it was further indicated that FAME intended to sell such debentures to its shareholders within the next three years in units of $100 or multiples thereof and that no commission but out-of-pocket expenses would be paid to the agents.

On October 21st, 1963, FAME filed a further prospectus pursuant to The Corporations Information Act, in which they indicated their intention to sell the $3,000,000 debenture issue to non-shareholders as well as shareholders. In all the company raised by way of debentures a total of $1,041,050, and by way of share capital the sum of $1,434,188. Progress of the sale of shares is indicated as follows: In 1960, a total of $2,300, but this was qualifying shares for Directors. In 1961, $536,015; in 1962, $370,538; in 1963, $296,220; in 1964, $217,585; in 1965, $7,430. The sale of debentures proceeded as follows: In the year 1962, $15,800; in 1963, $486,085; in 1964, $538,565; and in 1965, $600.

These figures do not include the $66,000 received from the sale of debentures in 1960, which was returned to the purchasers as a result of the order of the Securities Commission dated November 30th of that year. It does not include the moneys paid in trust to the Metropolitan Trust Company in 1965 for the purpose of reclaiming the shares in the Fearman Company. This latter sum was also returned to those contributing such amounts as hereinafter related.

The following memorandum indicates the amount of shares and debentures sold by counties, the number of subscribers and the average amount contributed by each purchaser:—

SHAREHOLDERS AND DEBENTURE-HOLDERS AS OF NOV. 30, 1964

Total Investments in FAME by Counties

County	SHARES $	SHARES Sub-scribers	SHARES Average per Member	DEBENTURES $	DEBENTURES Sub-scribers	DEBENTURES Average per Member
Brant	34,700.	275	$126.	36,600.	52	$ 703.
Bruce	104,900.	961	109.	65,400.	184	355.
Carleton	5,800.	54	107.	200.	1	200.
Dufferin	26,000.	221	118.	24,400.	53	460.
Dundas	27,200.	248	110.	12,900.	9	1433.
Durham	33,800.	316	105.	47,600.	80	595.
Elgin	11,900.	117	102.	15,800.	25	632.
Essex	26,000.	240	108.	6,600.	18	367.
Frontenac	11,600.	109	106.	700.	1	700.
Glengarry	1,100.	11	100.	100.	1	100.
Grenville	6,600.	65	102.			
Grey	101,400.	892	115.	71,900.	167	431.
Haldimand	28,500.	271	105.	12,600.	27	467.
Halton	3,600.	331	111.	21,300.	28	761.
Hastings	11,900.	109	109.	500.	1	500.
Huron	87,800.	806	109.	106,500.	247	431.
Kent	25,100.	204	123.	7,800.	18	433.
Lambton	77,100.	687	112.	76,700.	145	529.
Lanark	8,800.	77	114.	600.	3	200.
Leeds	14,300.	131	109.	8,300.	12	691.
Lennox & Add.	6,700.	66	102.	100.	1	100.
Lincoln	5,900.	53	111.			
Middlesex	66,700.	601	111.	16,000.	39	410.
Norfolk	26,800.	259	103.	8,000.	17	471.
Northumberland	37,500.	366	102.	43,500.	81	537.
Ontario	43,600.	398	110.	32,400.	68	476.
Oxford	32,200.	304	106.	20,800.	48	433.
Peel	33,600.	282	119.	41,800.	69	606.
Perth	116,800.	845	138.	84,800.	141	601.
Peterboro	21,300.	208	102.	41,250.	76	543.
Prescott	5,900.	57	104.	1,500.	2	750.
Prince Edward	11,500.	105	110.	600.	2	300.
Renfrew	20,800.	193	108.	100.	1	100.
Russell	13,600.	135	101.	600.	2	300.
Simcoe N.	19,100.	173	110.	8,600.	10	860.
Simcoe S.	12,300.	119	103.	4,100.	9	456.
Stormont	5,800.	56	104.			
Victoria	46,500.	431	108.	17,200.	20	860.
Waterloo	67,300.	562	120.	52,700.	106	497.
Welland	5,400.	52	104.	200.	1	200.
Wellington	63,100.	530	119.	43,800.	80	547.
Wentworth	26,600.	243	109.	39.200.	63	622.
York	44,700.	355	126.	55,500.	88	631.
Miscellaneous				500.	1	500.
	1,414,800.	12,518		1,029,750.	1,997	

As the moneys were collected by FAME from the sale of shares and debentures and not then required for business of the company, it was invested by the Directors in various banks and trust companies. Such investments yielded a total by way of interest of $93,626.

From the inception of the company to March 31st, 1965, moneys were paid out by way of advertising and promotional expenses as follows:—

Partizeau Associates	$ 26,349
Postage	16,429
Supplemental office services	540
Casual wages—advertising	7,770
Canadian Advertising Agency Limited	5,755
Ontario Hog Producers' Association	533
West Toronto Printing House Ltd.	1,060
Co-operative Union of Ontario	824
E. G. Hirst mail advertising	3,197
Twin Offset Production Services	4,888
George Whitten	2,219
Miscellaneous newspaper and radio advertising	12,946
Canadian Central Insurance Agency	2,728
North American Business Equipment Ltd.	1,001
	86,239
Items under $500 not listed	24,633
Total	$110,872

The amount paid out by way of salaries, commissions and expenses in the sale of shares and debentures from the inception of the company to March 31st, 1965, amounted to $153,749.

The total estimated cost of raising the capital funds of the Association amounts to $473,136. In arriving at this figure, that proportion of expenses and salaries calculated to have been directed to this endeavour were so charged. The percentage is nineteen per cent of the total amount so raised. A detailed statement as to how such amount is arrived at is as follows:—

	Percentage of total expense	
Salaries, commissions and expenses— shares and debenture sales	100	$ 153,749
Fieldmen's remuneration and expenses	75	66,321
Directors' remuneration and expenses	40	51,135
Officers' salaries and expenses	50	26.119
Office salaries	60	25.853
Advertising and promotion	100	110,872
Rent, light, telephone and general office expense	50	36,934
Legal, audit and accounting	10	2,153
Total estimated cost of raising capital funds		$ 473,136
Total capital funds raised:		
Shares		1,434,188
Debentures		1,041,050
		$2,475,238
Estimated cost of raising $100 capital		$ 19

Note: The percentage of total expenses used above were determined partly on the basis of a schedule prepared by the company in 1961 and partly on the basis of estimates made using more recent information.

A statement of receipts and disbursements from the inception to March 31st of 1965 is as follows:—

	Schedule		
Receipts:			
Shares:			
Issued			$1,427,200
Partial payments			6,988
	1		1,434,188
Debentures: (note 1)			
Issued		$1,041,000	
Partial payments	2	50	
			1,041,050
Interest	3		93,626
Mortgage loans	4		30,000
Bank loan—Mercantile Bank of Canada		100,000	
Less repayments		94,000	
			6,000
Directors' loans		8,750	
Less repayments		6,600	
			2,150
Sale of land—Neustadt			15,000
Sale of crops and timber and rent of barn			8,354
Contributions			4,368
Total receipts			$2,634,736
Disbursements:			
Consultants' and architects' fees	5		$ 209,923
Directors' remuneration and expenses	6		127,837
Officers' salaries and expenses	7		52,238
Office salaries	8		43,089
Fieldmen's remuneration and expenses (note 2)	9		88,427
Salaries, commissions and expenses— share and debenture sales	10		153,749
Advertising and promotion	11		110,872
Rent, light, telephone and general office expenses			73,869
Land purchased	12		128,610
Proposed plants—sundry expenditures	13		45,299
Legal, audit and accounting	14		21,534
Furniture and equipment			5,838
Interest—debentures		30,476	
loans and mortgages		3,187	
			33,663
Miscellaneous			2,829
			1,097,777
F. W. Fearman Co. Ltd.—share purchase	15		1,535,505
Total disbursements			$2,633,282
Cash balance March 31, 1965			$ 1,454

EXPERIENCE OF SIMILAR PROCESSING PLANTS

In April of 1959, David D. Monieson, Ph.D., Associate Professor of Marketing at Philadelphia University, made a report to the Ontario Hog Producers Co-Operative in connection with the problems of planning or integration by the O.H.P. Co-Operative. He was Canadian born and very interested in the marketing field in Canada. At one time he lectured at Toronto University and has lately been at Queen's. He assisted in the early stages of the promotion and organization of FAME. He states in part as follows at page 33 of Exhibit 101:—

> "The ideal hog integration would call for the ownership and operation of slaughtering facilities, not only to control carcass supply, but also because it would provide the hog producer with a profit on this phase of operation. However, there is a fixed investment that restricts flexibility in case the venture proves a failure. In addition, slaughtering is an industry that does have surplus facilities and competition. Finally, U.S. Co-Operative experience in slaughtering is not favourable."

At page 52 he states:—

> "Processing, if successfully performed, would definitely enlarge the producer's share of the consumer's pork dollar. It should be noted, however, that managerial ability, financial resources, processing skill, and retail market share are very important requisites for success. American farm co-operatives have amassed a dismal record in attempting the complete meat packing operation. Poor management and finances have been contributing causes."

And at page 53:—

> "There are some serious drawbacks to entering the processing phase of meat packing. One cannot shrug off past co-operative failures in this area; nor can one discount lightly the political repercussions in the event of such an 'invasion', nor ignore the high capital investment and working capital requirements. More important, however, is the intuitive feeling that this final step may be just too much for the O.H.P.C. to handle in the light of its absolute inexperience. Certainly detailed research is required to escape intuition; prudence demands it."

THE FIRST CO-OPERATIVE PACKERS OF ONTARIO, LIMITED, BARRIE

The above named Co-Operative was given its charter under the Ontario Companies Act in 1929. It is commonly referred to as COPACO. The purposes motivating its formation were not only price maintenance but also that producers might have definite knowledge of the cost of processing and selling the finished product so that the real value thereof at each stage of its preparation could be ascertained. It started operation by

way of slaughtering, processing and selling hogs, cattle, sheep, calves and poultry. In recent years it has discontinued dealing in poultry. It has 2300 members of whom 1600 are actual producers of livestock. It has an annual volume of sales amounting to approximately $10,000,000.00. It serves the farmers of Simcoe, Grey, Dufferin and surrounding counties. By reason of its long experience in the business prior to the formation of the Ontario Hog Producers Marketing Board, it has been granted the right to purchase hogs direct from its members. As a result, such animals are driven direct from the farmer's yard to the company's assembly yards. This is the only case where such privilege has been granted and is an exception to the rule that hogs must be sold through such Board and was granted to COPACO because it was the only co-operative meat packing plant in Ontario and it was desirable that its procedure should not be interfered with. It also buys about 35 or 40 per cent of its hogs from non-members, but in such case the sale is through the Provincial Marketing Board and no patronage dividends are paid thereon.

Financing of the project was arranged through a $100 membership fee together with a note for $50 which was eventually called. This realized the company about $275,000 with which it built its own plant. Further help in early financing was provided by a deduction of 5 per cent from each member's invoice. This eventually was repaid. In 1933, COPACO was in serious financial trouble and had to borrow extensively, but by careful management in the operation of its plant and the sale of its product, has repaid all loans and has enlarged its plant and improved its equipment. It retains patronage dividends which are remitted to its members on a rotation basis. At the present time, it has the use of about $100,000 on which it pays interest at 5 per cent, with all such dividends paid to members to the year 1961. Such system provides a very considerable assistance in its financing. The success of this Co-Operative is due in no small measure to its efficient General Manager, James A. Simpson, who started with the company as a desk clerk 30 years ago and has risen through its different departments to his present position. He says the company is not only a means to obtain better prices for the farmer, but it also provides a steady competition in the purchasing of the livestock and the members are kept fully informed as to what was eventually realized by way of profit when the product was eventually sold to the consumer. Mr. Simpson finds the meat packing industry not to be highly profitable, but that it is very competitive both in the initial purchasing and resale of the finished product. Success depends on the volume of turnover. The company fully processes pork, but a great proportion of the beef is sold in carcass form to large chain stores who have their own cutting rooms. Buyers are very exacting and a good sales connection is very necessary. The product is not entirely consumed in our own Province, so that outside markets must be found for this excess.

The company's annual statement shows profits over the past five-year period of about $30,000 to $35,000 annually after charging depreciation which amounts to .5397 percentage on sales. Mr. Simpson states that the company considers it to be very fortunate if profits of one per cent be declared in any year. It recently acquired the White Packing Plant at Stratford, which was a full meat slaughtering and processing plant which had an annual sales volume of about $9,500,000. Facilities in the plant would permit this to be doubled. Price paid for the fixed assets was

$185,000. Between the two plants COPACO is now processing about seven and a half per cent of the hogs marketed in Ontario. Mr. Simpson says it would not be desirable to have more than twenty or twenty-five per cent of the control of the market with any one company. COPACO is a member of the Meat Packers Council of Canada. The members of this organization process eighty per cent of the Canadian product. They freely exchange ideas and experience with each other as well as with the American meat industries.

CO-OPERATIVE FEDEREE DE QUEBEC

Co-Operative Federee de Quebec is the co-operative company which handles all co-operative merchandising and marketing enterprises in that province. It was organized in 1922. Le Grad Inc., which is a subsidiary of the above company, has processed the pork and meat products since its inception. The financial statements of all subsidiary co-operatives are combined in one statement of the parent company, so that an exact statement of amounts realized from the processing activities of Le Grad is not available, but total value of such processed products is estimated to be between 37 and 40 million dollars annually. About twenty per cent of the hogs and forty per cent of the cattle of the province are handled through this co-operative agency. It is the second largest meat packing firm in Quebec and one of the largest in Canada. There is no government controlled hog marketing board in Quebec. About 300 local co-operatives make up the parent company and about one-half of these ship cattle and hogs to Le Grad. The company gives extensive technical advice and help in farm husbandry and management. A uniform price for livestock is maintained throughout the province. The patronage dividends are sent direct to each local company. The latter divides the same among its supplying producers in proportion to the livestock delivered by each member. For the year 1964, the total sales by Quebec Federee of all its products amounted to $124,000,000, of which its net savings for the year were $720,000 or a little less than three-fifths of one per cent of total sales.

It was stated in evidence that probably Le Grad was the most profitable of all the subsidiaries, but that one per cent of total sales would be a normal result in this branch of the company's business with a possible variation from .80 to 1.25 per cent. The experience of this co-operative as far as profits is concerned is not encouraging. In 1962 Quebec Federee lost approximately $1,000,000 in all its operations and was in difficult financial position until its complete financial reorganization was accomplished in that year. In 1963 it realized a profit of about one-half of one per cent on its whole operation. However, there is no doubt but that this organization is now well operated and is of great benefit to the farmers of that province. As far as livestock sales are concerned, it is a vital factor in the maintenance of steady prices.

The company spends considerable money in various contributions to organizations devoted to the promotion and the defence of agriculture in all its phases. They are constantly attempting to widen the markets for Quebec agricultural products and for that purpose have sent representatives to other countries to explore further possibilities in such markets. Studies are being made on the development of new products and new

processing methods. Their meat products have surpassed the 15,000,000 pound mark and have been sold to more than twenty countries.

Its General Manager, J. Arthur Corteau, in the early activities of FAME was consulted by the Officers of the Ontario Co-Operative, who received valued help and encouragement from him. He addressed the annual meeting of the shareholders in October of 1960. It was intended that this Inquiry should have the benefit of hearing him, but he died in the month of June. Mr. Pierre Paul Dionne has been with the company since 1952. He is now manager of Le Grad. He voluntarily attended this Inquiry and gave very helpful information. Paul Bourdon has been the General Superintendent of Le Grad since September of 1963. Prior to that, he had been Assistant Superintendent of the Montreal plant of Canada Packers. He was engaged in the productive branch of the work but had no financial experience. McInnis met him when seeking information from Quebec Federee.

NOVA SCOTIA CO-OPERATIVE ABATTOIR LIMITED

Nova Scotia was the only province, up until 1960, that did not have a federal government inspected abattoir. Two such plants had been located in New Brunswick and one in Prince Edward Island. Consumer demand for "Canada Approved" meats was increasing, but this meant that Nova Scotia meats carrying this symbol would, of necessity, be slaughtered in New Brunswick and Prince Edward Island. This added transportation cost on livestock going to the plants, and meat coming back, worked detrimentally for both the Nova Scotia producers and consumers. In addition, the marketing of cattle in Nova Scotia on an ungraded price basis per animal, or a weight basis with weights calculated, which had been the system for many years, led to little encouragement for the farmer to improve quality and increase production.

Records maintained for at least twenty years had indicated that the lack of modern marketing and processing facilities had resulted in a situation whereby Nova Scotia farmers were selling cattle from \$30 to \$50 below that which the farmers were receiving for comparable cattle in Ontario and Quebec. Livestock farmers' incentive, under these conditions, for increasing quality and production was extremely low. With hogs the situation was considerably better. Nevertheless, transportation costs for moving animals to Moncton and St. John weakened the farmers' confidence in the hog industry, resulting in the maintenance of hog production at a very low level.

As a result of these conditions, the above company was incorporated in 1960 to process livestock within the province. The Provincial Government assisted by purchasing share capital to the extent of \$200,000 and making a loan of \$1,000,000. The producers had themselves raised by share capital the sum of \$570,000. A packing plant was built and equipped at a cost of \$1,200,000.

The first four years of operation resulted in considerable losses due to a lack of experienced help and management, delay in procuring the farmers to market a high-grade market, the difficulty of gaining access to a highly organized and skillfully developed market of national and international packers and a shortage of livestock in the first few years.

After four and a half years of operations with an average of 800 hogs and 120 cattle per week, the company will break even and show a small profit for the first time in the fiscal year ending April 30th, 1965. The result of this co-operative abattoir is that production of hogs in the province has increased from about 21,000 in 1958 to 78,000 in 1965. The quality was improved and the basis has now been established for the development of a sound livestock industry in Nova Scotia. The Co-Operative supply the farmer with details of market requirements and advice as to the best method to finish the animal. The result is that the farmers of this province now secure prices for their livestock equal to that paid in Central Canadian livestock markets. While this abattoir in Nova Scotia does not have the competition that such a co-operative packing plant would experience in Ontario, still its progress and help to the producer is worthy of consideration.

The experience of COPACO, Quebec Federee and the Nova Scotia Abattoir in these separate provinces indicates that the processing and marketing of livestock is not an industry which one can enter with certainty of immediate profits.

J. E. O'Meara, Director of the co-operative branch of The Ontario Department of Agriculture, in a review made in 1963, compares the co-operatives in the province now with those of fifteen years ago. In part he states as follows:—

> "Major shifts in co-operative marketing emphasis over the fifteen years under review can also be noted from an examination of the number of co-operatives active in various commodity groupings. For example, co-operatives handling and shipping livestock declined from twenty-seven in 1947 to six in 1962, partly due to the establishment of the Ontario Hog Producers Marketing Board and the subsequent control of hog marketing by the Board. In addition, the spread of community auction sale yards for livestock displaced some local shipping co-operatives and other co-operative services."

In his conclusions he states in part:—

> "A study of the results of these two surveys leads to a number of conclusions. First, it is apparent that the number of trading co-operatives in the province, i.e., those in the field of marketing of farm products and distribution of supplies, has not increased greatly but they are serving a larger membership over a wider area. The main strength of Ontario Co-Operatives lies in an integrated programme of distribution of farm supplies to 151 local retail outlets."

Again he states:—

> "It would be wrong to conclude that over the fifteen year period Co-Operatives in Ontario have made spectacular progress. Rather, it would be more accurate to say that in most major fields they have kept pace with the economy, and in any one or two cases, namely, petroleum distribution and grain marketing, have achieved remarkable results."

CANADA PACKERS LIMITED

The report made by The Restrictive Trade Practises Commission in 1959 concerning the meat packing industry and the acquisition of Wilsie

Limited and Calgary Packers Limited by Canada Packers Limited contains the following statement concerning the problems of the industry:—

> "In the meat packing industry, the fluctuation in supply and price lead to two main problems. The first is the maintenance of efficiency in plant operations with a variable flow of livestock for slaughter. The second is the uncertainty of gains or losses on inventory resulting from change in prices which may occur between the time of purchase of livestock and the sale of the processed product."

TROY & STALDER—ARCHITECTS

Up until October, 1961, the minutes of the company do reveal little consideration has been given by the Board as to construction of plants or means of carrying on the proposed business. The company has been functioning over a year and $493,380.00 had been realized from the sale of shares. There had been criticism of the lack of action in commencing business or at least letting the stockholders know what was being planned. The Directors' Meeting of April 17th, 1961, indicated the Beef Producers' Association had voted against supporting FAME's campaign. At the same meeting, there is reference to questional reports in a Stratford paper as being typical of the adverse publicity the enterprise was receiving from the press. Mr. McInnis, about September of that year, wrote to the President of the Consumers Co-Operative of Kansas City, U.S.A., who then operated a meat slaughtering plant there, asking him to refer him to a consultant who might make a study of livestock marketing in Ontario. He recommended John Troy of the firm of Troy & Stalder of that city. Mr. Troy met with the executive committee on October 12th, 1961, when a motion was passed by that committee in the following words:—

> "That we engage Mr. Troy of Troy & Stalder to conduct research with respect to meat processing operations and to make recommendations relative to producer processing in the Province of Ontario, including plant locations, type and design, and the fee for a complete survey not to exceed $5,000."

Mr. Troy met with the Board of Directors on the 16th of October and related information regarding the study he proposed to conduct regarding plant instruction, design, engineering, and the meat packing industry in general. That report was filed with the Board on November 27th of that year, (Exhibit 30). This report has been criticized as being decidedly optimistic as far as the profits which it forecast for the enterprise. It had indicated net savings before tax of 4.2 per cent of sales. On the evidence of the other witnesses engaged in co-operative meat packing, it is not realistic. Mr. McInnis states that Troy did not inspect any meat packing plant in Ontario before making such report, but that he relied largely for his information as to the industry here on information that he would obtain from public statistics. His report leaves the inference that Ontario meat processing plants are guilty of wasteful practices which cut down the profit that might be had. He also states that new modern plants would put meat products on the market at a fraction of the cost now incurred. How he could give such a professional opinion without examining the operation of local plants is hard to understand. The same is inconsistent with the report of the special Commission appointed by the Co-Operative Union of Ontario to study the advantages as between government regulated marketing boards and voluntary co-operatives in 1961. That fact finding committee reported as follows:—

> "It is the view of the commission that the large packers of Canada are efficient in the sense of plant layout, the organization of processing operations and the aggressive methods used in marketing."

In his consolidated pro forma statement of savings, he forecast sales from the five suggested plants to be constructed by FAME of $74,000,000 over a 52-week period. When one remembers that COPACO, after 30 years in business, is only processing about $10,000,000 a year, and that Quebec Federee, who process about one-third of the livestock of Quebec, has sales at the most of $40,000,000 in livestock, the above suggested figure of $74,000,000 for FAME in Ontario was far from what could reasonably be expected. Mr. McInnis said he did not think any of the Board thought that such a figure was realistic. He put the estimate of the cost of erecting and equipping the five plants recommended as follows:—

	Plant	Equipment	Sewage	Total
Chatham A	$ 310,000	$ 295,000	$ 60,000	$ 665,000
Ayr B	610,000	595,000	120,000	1,325,000
Lindsay C	310,000	295,000	60,000	665,000
Ottawa D	415,000	395,000	80,000	890,000
Mariposa E	505,000	390,000	100,000	995,000
	$2,150,000	$1,970,000	$420,000	$4,540,000

Tenders submitted by the Pigott Construction Company in the spring of 1964 for the erection of the Ayr plant alone amounted to $2½ million. It is true that the Ontario sales tax has increased the cost of construction in the meantime to some extent and there may have been some changes in the plans, but the great difference between this estimate and the subsequent tender leave a great doubt as to the value of such report.

The consolidated statement above referred to carries out net savings before income tax of over $3,000,000 per annum, and on page 2 he estimates sales from Plant D, which was the one to be constructed in the Ottawa Valley, at $13,000,000 annually and profits of 7 per cent.

Dealing with work capital required, Troy therein states as follows:—

> "It is assumed that you will sell 75,000 shares of stock. That would produce $7,500,000. In addition to this amount we have shown a bank loan at the 2½ week period of $3,150,000. As the plants start to produce savings, the working capital requirements go down. At the end of the year we show in Table 3 bank loans of $700,000, the balance having been paid off during the year. We show cash at 2½ weeks of $257,129 and at the year's end of $1,204,438. Actually the bank loan could be paid off at the end of the year and still leave over $500,000 cash in the bank."

Not all of the Directors treated such report seriously. McInnis in his evidence said, "If he meant we could make $3,000,000 in the first year, then he didn't kid me." Harold John Smith undertook later to make some investigation from two other firms who had employed Troy to do similar work and said he ascertained they had discontinued his services.

Troy was not licensed nor permitted to act as an architect in the Province of Ontario by reason of the Architects Act, R.S.O. 1960, Chapter 20, and as a result, it was understood by McInnis that he would have to employ Ontario architects to prepare plans and to do certain other work.

Their services however were terminated and after November of 1962, Troy did the architectural work in connection with FAME's contemplated construction himself.

On March 22nd, 1962, FAME entered into a contract with Troy & Stalder whereby the latter were to make preliminary estimates, prepare drawings, plans and specifications together with other supervision and work during the course of the letting of contracts and construction of plants and the general supervision of the work, including the installation of machinery, equipment and fixtures. The fee to be paid such firm for their work was an amount equal to 7 per cent of the construction cost of the project, payable as follows: 20 per cent thereof upon completion of the preliminary drawings, upon completion of the work drawings, plans, specifications, and the acceptance thereof by FAME a sum sufficient to increase the total payments to 60 per cent of the fee, and the balance was to be paid during and at the conclusion of the construction. FAME was to notify Troy in writing as to when he was to start work in connection with the project or any part thereof and was not to be responsible for any fee or other charges incurred by such architect prior to such notification. He was instructed to prepare plans and specifications for the proposed Ayr plant, and on October 24th, 1962, he presented these to the building committee and later the same day the Directors in the meeting gave tentative approval thereto and accepted the same.

He was later instructed to prepare plans for a slaughtering plant. Fred Fisher, an architect from Toronto, testified his firm prepared a number of the plans for Troy & Stalder. He said their total account therefor was $31,000 and that Troy had only paid $4,252 thereon. His Solicitor wrote FAME demanding payment thereof on February 28, 1963, but there was obviously no liability therefor on the part of FAME and they did not assume payment therefor.

George Sladek, Consulting Engineer from Toronto, said his firm assisted Troy & Stalder by producing the mechanical, electrical and structural drawings for the Ayr plant. Later he said he found on the premises of FAME drawings not prepared by his firm but on which such firm name had been added without their authority.

In all there was paid to this firm a total of $209,923. The amount was far beyond what it was entitled to under the terms of the contract with FAME or for plans accepted by the Board. Calculations made by Counsel at the Inquiry indicated an over-payment of between $50,000 and $60,000.

On January 13th, 1964, the Board passed a motion to the effect that payment on account to Troy & Stalder be made on the basis of $5,000 per month for three months, at the end of which period his contract should be reviewed and further payments be made accordingly.

Commencing on May 5th, 1964, Troy was paid weekly thereafter the sum of $5,094 per week for a period of nine weeks, and in one week he was paid double that amount. After this period of time, however, payments continued to be made to Troy although no authority therefor appears on the records of the company.

No construction of buildings was ever commenced by FAME pursuant to such report or plans. The plans and specifications have not been made

use of. It was a very unprofitable association as far as FAME was concerned. The continued unearned payments to Troy could not be explained by McInnis although the cheques therefor were signed by himself and the Treasurer, Walton. Walton says that McInnis gave instructions that neither he nor any other of the staff were ever to go in the room that had been set apart in FAME's office premises for Troy's accommodation to complete his drawings. This was part of the propaganda characteristic of McInnis in which he was always envisaging spies or enemies, as he called them, attempting to steal the modernized methods of FAME in relation to meat packing. This theory was adopted by Troy as well. He strongly urged the Board not to look for competitive bidding from contractors in the construction of the plants, but recommended a method of negotiation in lieu thereof.

In the letter of February 27th, 1963, to McInnis (Exhibit 31) he states in part:

> "We feel it is our obligation to again press our method of tendering for the following reasons: Competitive bidding is fast becoming obsolete as the best method of consideration. Last but not least I must impress that in open competitive bidding FAME plants will be spread throughout the province. Anybody who is contemplating a packing plant or who owns a packing plant then can immediately match the efficiency that we are going to have. I am sure that Canada Packers would not overlook this opportunity for a minute."

Mr. Troy was given an opportunity to appear before the Inquiry to give evidence at his convenience, and was assured he would be reimbursed for his travelling and lodging expenses, but he failed to appear. His Solicitor wrote before this Inquiry had commenced holding hearings, stating that the proceedings appeared to be little more than a witch hunt incited by certain dissident members of FAME's Board of Directors to discredit Mr. McInnis's administration as President of the organization.

Mr. McInnis in his evidence still assures the Commission that Troy was a very careful and cautious man. He owed an obligation to FAME to appear at this Inquiry to answer many questions concerning the said report which he had given and as to his part in this unfortunate business venture.

The evidence does not reveal that either the Board or McInnis sought any advice from him in connection with the purchase of the Fearman plant in July, although he was present at a meeting of the Board and the Building Committee at the very time that such purchase was being considered. It may be that it was evident that the acquisition of such completed and operating plant left no room for his continued retention by FAME and that it was a shelving of his proposals, but if McInnis thought as highly of his ability and judgment as he alleges, it is difficult to understand why he did not avail himself of the same at the time this important change in plans was being made and when FAME were taking on such a giant undertaking.

I can find no reference in the minutes of either the Building Committee or Board of Directors or the evidence of any of the members thereof of any attempt to secure the opinion of Mr. Troy in regard to the purchase of the Fearman shares.

RELATIONSHIP WITH OTHER FARM ORGANIZATIONS

At the time of the organization of FAME in August of 1960, an Advisory Committee for the benefit of such newly organized company was set up consisting of members from U.C.O., O.F.A., C.F.A., O.H.P.A. and Copaco. Some meetings of this committee were held but there is little information as to their discussions or what help they were.

At this time, McInnis was in charge of the advertising literature being set out by FAME. Officials of the other organizations objected to their name being used on such pamphlets without having first seen and approved of the contents of the brochures so used. All the said advisory associations were concerned and worried about the manner in which it might affect the different organizations. FAME immediately destroyed all such advertising material and McInnis said he felt obliged not to call any further meetings of such advisory committee. This deprived FAME of the opportunity of the beneficial advice from such committees thereafter. There appeared little excuse for such arbitrary action on his part at this time.

On the evidence of all witnesses, I am convinced that at the time of the initiation of FAME all farm organizations and those associated with them were anxious that FAME should be successful and render to the producers of livestock in Ontario that worthy service which it was its ideal to accomplish, and that all such bodies were willing to assist in any reasonable manner bringing about such desirable end. As time went on, however, doubts began to arise in the minds of many such producers as to whether the men in charge of the organization would make a success of the venture. There was never any doubt concerning the ideals of FAME and the benefits that would arise from such organization entering and remaining in the meat processing field providing it went about such object in a business-like manner. There is still no doubt in the minds of the livestock producers but that there is room for a larger co-operative meat packing industry in the Province of Ontario and much benefit to be derived therefrom.

Most of the members of the Board of FAME seek to explain such doubts by attributing them to the opposition of other farm groups. They say there was a clash of personalities between some of the leaders of these groups, but I cannot find that such was the cause of the uneasiness among those who were skeptical of the company's success. This doubt was never universal. FAME always had a large following who thought there was no reason to question the judgment and ability of those on the Board and particularly that of the President. His orations were very convincing. Even after the collapse of FAME in December of 1964, there were many who still had every faith in the ability of the Board to carry on successfully provided that enough money was raised to retrieve the shares from Gunner. There was some justification for the apprehensions that had arisen. By the end of 1963, three years and three months after the inception of the programme, although $1,711,058 had been raised by the sale of shares and debentures, construction of no plant had as yet commenced.

The cost of raising this money had been very excessive. The auditor's reports available for the shareholders each year made this information available.

The statement at the end of the fiscal year of June 30th, 1963, showed accumulated expense from inception of $359,201. This figure did not include the purchase price of land or any other asset. The information given at the annual meeting of shareholders was not encouraging. At such annual meeting held November 20th, 1963, one of the Directors expressed considerable concern regarding the building programme and the plans drawn up by Troy and Stalder. A motion was made at this meeting in the following words:—

> "In view of the fact there appears to be some uncertainty as to the actual cost of our proposed meat packing plants, be it resolved that we request the Board of Directors to engage a Canadian firm of directors or contracting organization to review our present drawings to determine their opinion and ascertain their opinions as to whether or not economies could be effected in equipment of a Canadian content as well as proposed building and plant layout."

An amendment to this motion was made and carried in the following terms:—

> "That this resolution be left in the hands of the Board of Directors for further consideration."

The Directors' report to such annual meeting did not indicate any substantial steps taken towards the erection or acquisition of processing plants or equipment except the purchase of land at Ayr, Mitchell and an option at Lindsay. Such report indicated a need of an additional $5 million to put the FAME programme into successful operation.

The Toronto Globe and Mail of Friday, October 21st, 1960, had carried the following editorial:—

> "After years of bitter quarrelling with the big packing companies, the Ontario Hog Producers Association has decided to go into the packing business itself. Within a year, it hopes to collect at least $10 million from its farmer-members; this money will be used to build a chain of association-owned plants across Ontario, handling not only pork, but also beef, veal and lamb.
>
> "If you can't beat them, join them." The OHPA has long complained that there is too big a spread between the price of the animal which the farmer sends to the packing house, and the price which the housewife pays for the end product. Unable to change this situation by argument, the OHPA has chosen the course of direct action. For this decision, this show of enterprise, the association is to be applauded. Instead of seeking help from the Government, the hog producers have set out to help themselves. We wish that other group grievances would follow their example.
>
> There is no reason why the OHPA cannot succeed in its venture. Other co-operatives in North America and Europe have gone into business, and have done well just so long as they operated in a business-like manner. There are risks, of course, and particularly in a

highly competitive industry like meat-packing. A net profit of nine-tenths of one cent on the sales dollar—Canada Packers' figure for 1959-60—does not leave much margin for error or inefficiency. We assume the OHPA is fully aware of these risks; if so, the more praiseworthy is its decision to get in there and compete.

Some people have made money in meat-packing; other people have lost it. The Ontario Hog Producers Association will certainly not bestow on the Ontario Government any profits which the new plants may make; we trust it does not expect the Ontario Government to cover any deficits which the new plants may incur. Enterprising enough to set up packing houses on its own, let the OHPA be enterprising enough to run them on its own, finding its own solutions for the problems that will arise. Given this, the association's venture into business will deserve respect and have reasonable chances of success."

The Farmers' Advocate of February 24th, 1962, contained the following news item concerning discussions of FAME at an Ontario Federation of Agriculture members meeting at Toronto:—

"FAME (Farmers' Allied Meat Enterprises Co-operative Ltd.) and its policies, came in for a brief airing recently. The occasion was an OFA members' meeting in Toronto. FAME is planned as a farmer owned meat packing and processing business. Its entry into the meat packing business is expected to provide greater competition in that field and ultimately return more of the consumer dollar spent on meat to the farmer.

A controversial resolution seeking OFA endorsement for FAME sparked the debate following presentation of a prospectus by FAME secretary Mel Becker. When the dust had settled several facts were obvious:

1. There are many people who support the idea of farmers going into the meat processing field but they want more information on how FAME is planning to do the job before they back it up.

2. People have either not been attending meetings sponsored by FAME to supply planning information or else FAME officials have not been providing that information.

3. There is a hard core of supporters who believe that FAME is very essential to Ontario livestock farmers and they are going all out to put it over.

4. There is a group who do not support FAME.

A. H. Musgrave presented the unemotional opinions of those seeking more information about how FAME will be operated:

"I do not oppose farmer owned meat processing plants", Mr. Musgrave said, adding, "but just because FAME is a farmers' co-operative it does not automatically mean success." He pointed out that even with the best of staff FAME would still encounter plenty of opposition. Competition will force FAME buyers to pay high prices in the neighbourhood of the plant although they could likely buy for less further away. A top manager would not want to pay any more money for livestock than his competitors. How would FAME sell its product?

It might have to take lower prices to get into the market. Or would the product be put out under some other firm's wrapper?"

At a very early stage of organization, articles appeared questioning the form of approach used in boosting FAME. An article written by Philip V. Moyes, reproduced by the National Dairy Council of Canada, from Food in Canada, November, 1960, read in part as follows:

"Flamboyant entry of FAME into the Ontario meat packing picture last month has highlighted problems in producer-processor relations which are worsening from year to year.

Every processor agrees that a healthy agriculture is vital to Canada's economic health. And it's obvious that the industry is abnormally subject to gluts and shortages in a way not shared by any other sector of the economy.

But one point is too often overlooked by economists, politicians and most of all by the farmers themselves—that a healthy processing industry is vital to a healthy agricultural industry.

FAME is just an extreme example of the muddled thinking. Ontario is faced with a situation where the same group of 11 directors could at the same time control the production of hogs, their marketing and a substantial proportion of their processing.

All this in a province where there is already plenty of capacity for all the processing needs.

It is time to take a hard look at the thinking behind the co-operative movement. Often a group of producers will recognize the need for a processing plant to handle surplus production—yet the economics are not attractive enough for private enterprise to set up these facilities. Here's where the special tax privileges of a co-operative and its access to money at cheap rates can make it profitable enough to provide the facilities. Many co-operatives have set up in this way and have done a good job for their members and the country generally.

But what about FAME using the same privileges to compete at unfairly cheap rates with fully adequate existing facilities on Mr. McInnis' rosy promises of fabulous profits there for the taking?

Even if the present compulsory marketing powers were used with scrupulous fairness to co-operative and private meat packer alike—and that's quite an IF—there's not likely to be any opposition to FAME members insisting on having their hogs processed in their own plants. Where does that leave the Ontario packing industry?

It's often argued that co-operatives are good because they bring producers in touch with the cold hard world of processing and marketing in today's competitive market. In the case of FAME the experience is likely to be a brutal one for the farmers who invest their hard-earned savings in the scheme.

But meantime, this experience is going to be bought at high cost. And the bill—as usual—will be footed by the processor and by the taxpayer. In the long run a sizeable proportion of it will likely be met by the unfortunate members of FAME as well."

Another article appearing in Food of Canada in its November, 1960 issue was as follows:

"Ontario Hog Producers Association has started collecting pledges to get their scheme for co-operative meat packing plants under way. Launched with a costly presentation at Toronto's Seaway Hotel, last month, FAME is rapidly taking shape. The initials stand for Farmers' Allied Meat Enterprises.

Government reaction to the prospect of the same 11 men acting as directors of the producers' association, compulsory marketing board and processors, was prompt and spirited. In the long run, FAME looks likely to trigger faster action to clean up long standing inadequacies in Ontario's hog marketing setup.

FAME's purposes are to:

Act as a selling agent for all of the fresh and processed meat products of Allied Meat Packing Co-operatives;

Price, warehouse and distribute them;

Advertise and promote a common brand or brands;

Help Allied Meat Packing Co-operatives to set up across Ontario by feasibility studies, fund raising, engineering and technical advice;

Give the packing co-operatives financial and banking help;

Set up centralized buying of supplies.

Here's another significant quote from the brochure:

"The primary function of the Allied Meat Packing Co-operatives is to guarantee themselves an adequate source of supply to maintain the scale of operations for which their plants are designed." And this might not be too difficult in present circumstances where FAME and the compulsory hog marketing scheme are so closely interlocked.

McINNIS IN WONDERLAND

To justify this grandiose scheme, president Charles McInnis painted a highly coloured and inaccurate picture of today's meat packing industry in Ontario. Here are some of his highlights, summarized in quotes, together with the realistic facts of the situation:

"Capital investment in Ontario's meat packing industry is some \$11,000.000." Fact: Replacement value of the plants would be a minimum of \$70,000.000—\$75,000,000.

"Producers receive less than 40% of the consumer's dollar." Fact: Royal Commission on Price Spreads reported that the hog producer received 60.5% of the consumer's dollar.

"Net profits of meat packing plants are 50% of capital investment." Fact: The Commission put the average net profit of meat packers at 8.8% on their investment after taxes from 1949 to 1957.

To put the picture into its true perspective, take a look at one startling fact:

If every dollar of profit from the Canadian meat packing industry was handed back to the farmer, it would add less than two per cent to his livestock income.

That gives a good yardstick to measure the soundness of a projected investment by the producers estimated by Mr. McInnis at $11 million in the first year alone.

Ontario Minister of Agriculture Hon. W. A. Goodfellow and the Farm Products Marketing Board have long been concerned about the amount of power devolved on the Hog Producers' Marketing Board and the way it is being used.

The Price Waterhouse Report of June 1960 had shown the need for tightening up controls and operating procedures. Since the passing of Bill 86, the government has been trying to implement it with the co-operation of the Hog Producers Marketing Board, with no kind of success at all. Only reaction has been that the Hog Producers Board has reneged on agreements to improve election procedures and has attacked the good faith and impartiality of the Farm Products Marketing Board.

Now the time has come for action. Mr. Goodfellow on the last day of last month announced a four-point program to put things back on the rails:

Elections for directors to be held in 11 zones worked out on a blended basis of number of hog producers and volume of production. This will likely come into effect with next spring. Directors at large will be eliminated. Any time now, Farm Products Marketing Board will issue an order directing the HPMB to use new selling methods ensuring that

(1) All lots of hogs are offered to open bidding by all buyers.

(2) The lot goes to the highest bidder.

(3) Bidding procedure is open and fully recorded.

This move will also cover the present allocation system. Meetings will be set up to consider across the board the relationship between voluntary co-operatives and compulsory marketing schemes."

There was also some fear that FAME intended to have its members' hogs by-pass the Hog Producers Marketing Board and thus interfere with the efforts of that marketing authority and limit its sales to an extent that it influence in maintaining market prices might be drastically impaired.

The evidence at this Inquiry indicated such marketing authority has now provided a means of disposal of hogs satisfactory to most of the producers and a model to similar enterprises in Canada and the United States.

Discussions at the Board meeting indicated that it was the intention of at least some of the Directors that steps should be taken to allow members of FAME to send their hogs direct to FAME's plants for processing and thus avoid the Marketing Board.

An article appearing in the Country Guide in March, 1964, which gave some indication of the extent of the uncertainty as to FAME's success. It read as follows:

> "Farmers Allied Meat Enterprises should remain a theory and its shareholders should consider taking aggressive steps to have their remaining assets transferred to either the now existing Copaco plant

at Barrie or the United Co-Operatives of Ontario. This is the view of M. L. Tebbutt, President of the Ontario Farmers Union. Mr. Tebbutt states that many members of the O.F.U. who are shareholders in FAME are now becoming concerned with the lack of progress taking place in this meat packing venture. He said that creates a dilemma. If you allow FAME to die, you could retard the farm movement for another generation. If you build FAME, you will destroy marketing boards for they both cannot function effectively as separate entities at the same time under existing legislation."

At the annual meeting of November 25th, 1964, a resolution presented from York County was as follows:

"Whereas the present policy of the Farmers' Allied Meat Enterprises is to purchase directly from its members; and, whereas this may create many unforeseen problems, such as the removal of livestock from terminal markets where competitive pricing can be accomplished, the inability to know what type of livestock will be delivered by the members, the fact that FAME cannot at present service all of its members in an equitable manner, and the possibility that through the action of FAME our present system of marketing may be weakened or destroyed;

Therefore, be it resolved that this annual meeting of Farmers' Allied Meat Enterprises, York County, recommend that Farmers' Allied Meat Enterprises Co-Operative discontinue and refrain from purchasing livestock for slaughter directly from its members or producers for a period of one year."

The above motion, however, was lost but it does show the controversy that had arisen over this particular aspect of FAME's proposed activity.

There were many as well who had little faith in the prophecies made in the Troy Report and the addresses made by officials at fund-raising functions.

EFFORTS OF ONTARIO FEDERATION OF AGRICULTURE

The Ontario Federation of Agriculture, hereinafter referred to as the Federation, consists of about 85 farm groups or County Federations of Agriculture, co-operatives, marketing boards, commodity groups and similar associations active in the advancement of farming and the welfare of its participants. It is entirely non-commercial and its purpose is to promote the common interest through collective action, to render such services to those engaged in agriculture pursuits as conditions may justify, assist in formulating and promoting agricultural policies and for such objects to collaborate or negotiate with other organizations and specifically to have authority to seek the unified authority of all such farm groups in matters of common concern.

The members elect 29 of their group as a Board of Governors who manage the affairs of the corporation.

FAME was accepted into membership shortly after its incorporation. Later the Federation had inquiries from some of its members as to whether this new member organization was pursuing its objects in a proper manner and particularly as to whether investment in its shares or debentures was a reasonably safe venture. The Federation, quite properly, thought it had a responsibility to ascertain sufficient facts concerning the policies and financial position of this new enterprise to justify it in intelligently answering such inquiries. An exchange of correspondence thereupon took place between the two Associations in which the Federation agents sought a meeting with the officials of FAME but the latter were not disposed to so meet.

In February of 1962, the Board of Directors of the United Co-operative of Ontario, feeling that it would be wise and of particular assistance and guidance to FAME, passed a resolution requesting the Federation to call a conference of all co-operative meat processing industries. The executive of the latter organization sent out invitations to all parties concerned to a meeting to plan and arrange the subjects of discussion and other details, but FAME did not attend such conference. There seems little doubt but that such proposed conference was primarily to be an analysis of FAME's programme but for the benefit of such organization and an opportunity for its officials to learn from friendly co-operative packers of experience; it is regrettable that the officials of FAME did not take advantage of this opportunity. Mr. McInnis' expressed attitude towards such a meeting seemed to be that to attend would be some admission of inability on the part of FAME to fully know and cope with all problems that might arise in operating this new venture. The minutes of the meeting of FAME's Directors held March 12th, 1962, indicate a motion was passed directing that a letter be written to the O.F.A. with a copy to the U.C.O. stating reasons for declining the invitation to sit in on the planning committee meeting called by such Federation. The reasons given were listed as follows:

(a) misrepresentation of statements in correspondence and meetings;

(b) not in the best interests of producers to hold such a conference;

(c) we have confidence in the experienced consultants we have had;

(d) we have already been in touch with other meat packing co-operators both in Canada and the U.S.A.

I was of the opinion, however, that McInnis was frightened that he might be cautioned in respect to the rather extravagant opinions he had been publicly expressing as to the easy money to be made in the industry and further, that among men experienced in the business, his paucity of knowledge as to what was required to successfully manage such an enterprise, would be abundantly apparent. Such a planning committee, however, did meet without FAME on March 16th, 1962 and decided that the conference should be held in the week of April 16th, following, that attendance should be limited to beef producers, Copaco, Co-operative Union, FAME, Hog Marketing Board, Ontario Federation of Agriculture and United Co-operative. Subjects arranged to be discussed were as follows: (a) Analysis and trends of the meat packing industry in Canada and Ontario, including present plant capacity, capital employed and earnings. The speaker—Ralph Bennett. (b) Experience and plans of co-operative meat packing programmes in Canada, Copaco, Nova Scotia Abattoir, Federee, Fame, Manitoba Pool Elevators, who had recently purchased Brandon Packers. (c) United States Meat Packing experience and trends. Speaker—Dr. Joseph Knap. (d) Basic requirements for co-operative processing, marketing and merchandising of farm products—Dr. Leith, Director of Research for Consumers Co-operative, Kensas City.

It was planned as well that the farm press should be invited to the conference. Because of FAME's attitude, however, the meeting was never held.

The Federation throughout the balance of 1962 and 1963 was not able to obtain satisfactory information as to the reason for delay in the implementation of the FAME programme and was not able to answer inquiries of its members in respect thereof. In the meantime, the doubts concerning its success were increasing and its relationship with other farm organizations deteriorating. For these reasons, the governors of Federation decided to again attempt a meeting with the FAME Board on December 5th, 1963. The steps taken therefor and the results are fully set forth in a manuscript prepared by Robert William Carbert who was at first Director of Information and later Secretary-Manager of Federation. He was with such associations from February, 1963 until June of 1964, when he left to become Farm Commentator with the Canadian Broadcasting Corporation. At the time this manuscript was a confidential draft for the Board of Governors of Federation. The executive committee met on February 18th, 1964 and discussed and approved such report which is in fact a history of the events between the two associations. It has since lost its confidential nature and relates the situations that existed clearly. I have accepted the facts as set forth therein to be correct. Because of its clarity, I prefer not to summarize its contents but now include its entire contents as part of my report herein. It is as follows:—

"The following document has been prepared in order that a thorough report of the OFA's activities with regard to Farmers' Allied Meat Enterprises Co-operatives Limited might be set out. This report has

been complied so that the Board of Governors and Members of the OFA will have a complete record of these activities and may be made aware of the concern that exists with regard to the undertakings of FAME. This is a genuine concern and one that your Executive feels it must convey to the Governors and Members in the hope that they will propose a solution.

FAME is referred to in Minutes of OFA Meetings in 1960-61 as the formative stages of this organization were noted. The birth of the idea, the drafting of the Master Plan and a reference to FAME's misadventure with the Ontario Securities Commission are among the early references. But it was late in 1961 that FAME, as an affiliated group, entered into OFA Minutes.

At a meeting of OFA Members, held in Toronto on December 8, 1961 the matter of Farmers' Allied Meat Enterprises came up for considerable discussion. It was at this time that a formal application for membership in the OFA was received from FAME. This membership application was approved by the meeting, but not before considerable discussion emanated from the introduction of a resolution from Lambton County, which read as follows:

> "For the sake of the welfare of the members of the Federation of Agriculture;
>
> And for the sake of all farmers in this Province;
>
> For the sake of all our agricultural organizations, the co-operative spirit and co-operative organizations;
>
> BE IT RESOLVED that the OFA strongly endorse the Farmers' Allied Meat Enterprises Co-operative programme and support its organizational efforts in every possible way;
>
> ALSO, be it resolved that the OFA urge its affiliated organizations to do likewise."

After considerable discussion, and the proposing of at least two amendments, this resolution was set aside in favour of another which said:

> "That FAME representatives be invited to come to the next Members Meeting to present their programme."

This was carried.

On February 8th, 1962 several members of the FAME Board appeared before the OFA members and presented a statement of the proposed FAME programme. This statement was presented by Mr. Mel. Becker, of the FAME Board. After a lengthy discussion of this presentation, the members passed the following resolution:

> "That the OFA should support the principle of Farmer co-operative processing plants."

On February 27th, the Board of Governors, acting on a recommendation of the Board of Directors of United Co-Operatives of Ontario, resolved:

> "To call a conference of co-operatives involved in the meat processing industry, such as FAME, Co-operative Federee de Quebec, Copaco, Enness and Consumers Co-operative Association (Kansas City, Mo.) with U.C.O. and other interested farm and co-operative organizaztions."

On the same date the OFA Executive planned such a conference, and directed that invitations should go out to the aforementioned organizations, suggesting that in each case they should be asked to send their President and General Manager, or Director and a staff member. The suggestion was made that this conference would run two days and the tentative dates were for the week of April 16th, 1962. A committee was proposed, consisting of two members each from the UCO, Co-op Union of Ontario, FAME and the OFA, to plan this conference.

A meeting of this Planning Committee was held on March 13th, 1962, with representatives of all the aforementioned groups except FAME. During the meeting a letter was delivered from Mr. Mel. Becker of FAME, advising that FAME would not be represented at the Planning Meeting since they felt no worthwhile service could be rendered by their attendance at a meeting which had "been called to plan a conference predicated on the doubt of FAME's success". The Planning Committee went ahead with plans for such a conference and on March 19th the OFA executive again approved the idea of holding a conference in a central location with OFA members and the press invited. It was agreed, also, that another attempt should be made to involve FAME in the Planning Committee and the conference.

The Conference was never held, however, due to failure to obtain the participation of the interested organizations.

On May 4th, 1962 OFA members entertained the Ontario County resolution:

> "Whereas it is the policy of the large corporate slaughtering and processing companies to eliminate competition in the marketplace by mergers and amalgamations, thereby greatly reducing the producer's fair share of the consumer's dollar;
>
> And whereas, after much study and research, it has been found necessary for producers to follow their product to the retail level through their own organizations, in order to restore this lost competition to the benefit of all livestock producers;
>
> THEREFORE BE IT RESOLVED that we urgently request that OFA give their wholehearted support to FAME."

In the ensuing discussion the question was raised as to what was meant by the term "wholehearted support". The resolution was amended to read:

> "THEREFORE BE IT RESOLVED that the OFA congratulate FAME on its efforts and assure FAME of the OFA's best wishes."

As amended, the resolution then carried by a substantial majority.

During 1963 there was little if any interplay between FAME and the OFA. The FAME membership in OFA remains in good standing on the basis of a fee of $50.00 in 1963 ($52.00 under the revised budget of 1964). During the year several requests for information on the soundness of the FAME venture were received by the OFA office, and the Ontario Federation found itself in the unenviable position of having to plead that it had no knowledge of the progress of its member organization. Some criticism has been expressed that the OFA was in fact hindering the FAME programme by remaining in this neutral position.

Then, on October 8, 1963, the Rural Co-operator carried an editorial on page 2 of the publication under the title "Let's Discuss Alternatives". It was a very extensive analysis of the alternatives that lay before FAME, as seen by the Editor, and it deserved much commendation for the way in which it set forth these alternatives without fear or favour. Understandably, this editorial sparked considerable discussion and comment, some favourable, some unfavourable. Both the United Co-operatives of Ontario and the Ontario Federation of Agriculture have been accused of sponsoring, and even of contributing, this editorial. Such an accusation is a discredit to the Editor of the Rural Co-Operator, who remains free of influence and dictation regarding editorial policies. For many years farm people have stated that they wanted the Rural Co-Operator to be an independent publication, in a position to comment freely on the problems that face rural Ontario. The paper, in presenting this controversial editorial, has confirmed its position as a farm paper whose duty it is to stimulate penetrating study and analysis of all farm business undertakings.

At the OFA's 27th Annual Convention held in Toronto, November 11, 12 and 13, 1963 a resolution was presented by the Oxford County Federation of Agriculture dealing with the co-operative ownership of food processing. As an indication of OFA support for such type of co-operative business, this resolution was carried by a large majority, with only a minor clarifying amendment (underlined) as follows:

> "Whereas the Canadian economy is being hampered by increasing ownership of industry by non Canadian interests, this being particularly true in food processing industry;
>
> Whereas the co-operative ownership of food processing facilities offers one of the most practical means of increasing Canadian ownership of industry;
>
> And whereas co-operative ownership of food processing facilities presents increased opportunity for the more efficient social organization of all branches of food merchandizing, including the presentation to the market of increased quantities of uniform products, more attractively packaged and suitably marketed;
>
> Therefore be it resolved that the OFA and CFA work to create more incentive on the part of farm organizations in regard to establishing co-operative ownership of food processing facilities."

This same resolution was taken by the OFA to the January meetings of both the Eastern Agricultural Conference and the Canadian Federation of Agriculture. It received the support of both groups and in each instance was carried. The OFA, by this action, would seem to have clearly indicated its support for co-operative processing facilities and, indeed, by such action is committed to a policy of supporting such undertakings. However, even with this recorded policy and despite a firm commitment to support co-operative processing facilities, the OFA Executive feels that the organization must have a thorough understanding of any particular undertaking and must be sure that it has a reasonable chance to succeed before it should plunge into a blanket endorsation.

Information has been extremely difficult to obtain in regard to the FAME undertaking. The reluctance of the OFA to give complete and unquestioned support to the programme, without a tabling of the pertinent facts, has caused the OFA to be treated as suspect. There has been no exchange of ideas. Indeed the new organization has tended to withdraw gradually from intimate association with all those groups that might have a mutual interest. One of the FAME officials was recently quoted as saying that they did not need the support of the OFA, the U.C.O. or the Ontario Hog Producers. They could succeed, despite these organizations, he said.

The Executive of the OFA have discussed the relationship between the OFA and FAME many times, pondering ways and means of solving this dilemma. They have become concerned over the financial position of FAME, but have been unable to obtain an accurate report from the organization. The only reports have come to us from FAME members, and others who felt the OFA should have some understanding of the nature of FAME's undertakings. One of these reports shows a financial picture which indicates that the business of raising share capital and debenture capital has been much more expensive, and much more time-consuming than initially expected. In the FAME Prospectus presented to the OFA Members Meeting, Feb. 8, 1962, Mr. Mel. Becker said, "It is intended to sell $5,000,000 of common shares at a par value of $100 each and the estimated net proceeds is $4,500,000, allowing for a maximum of 10 per cent for commission and administration expenses".

The report reaching our office for the year ended June 30, 1963, stating the source and application of funds for that year as well as the cumulative amounts since FAME's inception, shows a total amount of $1,202,000 in shares, debentures, shareholder contributions and mortgages on the Ayr property. Expenses in that same cumulative period amounted to $546,000 or 45.42 per cent, leaving $656,000 after these expenses were deducted. This rather heavy expenditure is 35 per cent higher than the maximum set by Mr. Becker's report, and exceeds by $46,000 the maximum he allowed as expenses to raise the intended $5,000,000.

If this report is accurate, for the year ending June 30th, 1963, it cost $321,661 of the total $466,136 received to net $144,475. This amounts to a percentage cost of 68.8%. Even allowing that some of these costs were permanent costs for land and improvements, it would

appear that the ratio of costs versus sales is far from attractive. If one may use the cumulative figures as indicative of the approximate cost of raising the capital necessary for this venture (45.42%) it may be fairly said that instead of $5,000,000 as estimated in Mr. Becker's report, FAME will have to sell at least $7,000,000 in share capital in order to realize $4,500,000 net. There may be a fair explanation for this report, but as set out in the mimeographed sheet provided us we can reach no other conclusion.

The second concern involves the professional guidance which FAME has contracted for, namely the group of professional consultants which have been retained to plan and build the series of Plants. We have recently been informed that the Manitoba Pool Elevators in Manitoba have dispensed with the services of the same firm after considerable development had been carried out on their co-operative processing venture in Brandon. We are told that a new firm of consultants has now been hired to re-draft the plans and start from scratch. We have also been advised by fairly reliable sources that the same team of professional consultants have also been replaced mid-way through their contract by the Consumer's Co-operative Association in Kansas City, Missouri.

Finally, we have been further disturbed by the statement attributed to Keith Leckie, General Manager of the Meat Packers Council of Canada, at their recent Annual Meeting in Windsor. Mr. Leckie said, "The Canadian slaughtering and Meat Packing industry is faced with the problem of having more capacity than present livestock supplies require". We wonder if sufficient attention has been given to the alternative of acquiring certain existing facilities which it is known are available, rather than further contributing to this surplus slaughtering and processing capacity by building an additional chain of Plants. Such an alternate move would have the further benefit of lessening the amount of small packer competition. We are also aware of several recent bankruptcies and business failures in the meat packing business and it becomes increasingly clear that these are not all caused by poor management or antiquated facilities. We would like to have some reassurance that thorough consideration has been given to these matters.

These reports add further to the OFA's accumulated concern for the security of its members' investment. On December 5th, 1963, OFA Executive dispatched the following letter to FAME over the signature of the Secretary-Manager:

> "It has been brought to our attention that there is evidence of some concern in relation to the financial position of FAME, as well as the relationship that exists between our two organizations. It is thought that a meeting between the two groups could clarify these issues and enable all concerned to have a complete understanding of the facts.
>
> I have been directed by the Executive Committee of the Ontario Federation of Agriculture to extend an invitation to the Board of Directors of FAME to meet with officers of the OFA at an early date.

It is felt that such meeting could serve a very useful purpose to both organizations from the standpoint of inter-organization liaison and exchange of information.

We would suggest that the meeting be held in camera at a time convenient to the members of your Board. The OFA will be pleased to arrange for a meeting place.

We shall look forward to hearing from you at an early date in this regard."

On December 9th the following reply was received:

"Your letter of December 5th has been received and comments noted.

Naturally, we would be concerned if there is evidence of any misunderstanding regarding FAME's financial position. We would very much like to know who of our shareholders are concerned about our financial position, and, if you could assist us in supplying this information, it would be very much appreciated by our Board so that clarification with parties in question can be arranged.

We look forward to your reply.

(signed) Mina Shillabeer,
Acting Secretary."

On December 10, 1963 the OFA responded with the following letter:

"Your letter of December 6th is acknowledged.

The pertinent point in our initial letter to you was the request for an early meeting between the members of the Board of Directors of Farmers' Allied Meat Enterprises Co-operative Limited and officers of the Ontario Federation of Agriculture. We note that you have overlooked this reference. We feel that there is much to be gained from such a meeting, and we would again request that you bring this matter to the attention of the Board of Directors of your organization for their consideration. We await a response from your Board."

On December 17th FAME replied, as follows:

"Your letter of December 10th has been received and will be presented to the FAME Board of Directors at their next meeting which will be held mid-January.

In the meantime, if you can supply us with the information requested in our letter to you on Dec. 6th it would be much appreciated."

On January 15th FAME replied, further:

"Your letter of December 10th was presented to the FAME directors on January 13th. During the course of discussions, it was generally agreed that perhaps there may have been some misunderstanding in the interpretation of your initial letter. You will recall, your letter of December 5th did state concern

was expressed in relation to the financial position of FAME and that a meeting of the two Boards could possibly result in a complete understanding of the facts.

However, your letter of December 10th now leads us to believe that the "existing relationship between the two organizations" mentioned in your letter was not, in fact, referring to FAME's financial position.

It is for this reason then that the Board is somewhat at a loss to know just what areas would come under discussion at such a meeting between the two Boards. We would, therefore, appreciate receiving some indication from you with respect to topics that might be discussed at a meeting as proposed in your recent correspondence."

On January 31, 1964 the Secretary-Manager of the OFA replied thusly:

"Your letter of January 15th is acknowledged.

I have reviewed the correspondence between the Ontario Federation of Agriculture and Farmers' Allied Meat Enterprises Cooperative, beginning with our letter on December 5, 1963 concerning the possibility of a meeting involving the Board of Directors of FAME and a corresponding group within the OFA.

The Ontario Federation of Agriculture, as you know, is committed to a policy of supporting the development of co-operative ownership of food processing. A resolution spelling out this policy was carried at the 27th Annual Convention of the OFA and it was referred to the Annual Meeting of the Canadian Federation of Agriculture in Charlottetown, where it was approved.

We have frequent requests for information from people and agencies seeking our opinions on FAME and endeavouring to determine the degree of endorsation which we give to your organization. It is extremely difficult to answer these questions—and indeed it might even be construed by some as lack of confidence in FAME, when we find ourselves in the position of being uninformed, hence non committal. As a general farm organization, we have a responsibility to keep ourselves well informed on all aspects of organized activity in the Province. This is particularly true of activities involving affiliates of the OFA since, while the OFA respects the autonomy of its members, we have a responsibility, at the same time, to have at least a general knowledge of the undertakings of our members.

Because of this, and because of the fact that the people who hold shares and debentures in FAME are the same people who make up the membership of the Federation of Agriculture, we are most concerned that every effort be made to bring about a complete exchange of information and a general understanding of its objectives.

> It seems abundantly clear that the success or failure of any farmer-owned co-operative undertaking depends entirely upon the wholehearted support and understanding of all farmers. Only a close working relationship between all interested organizations can create such an understanding and mould this type of support. This is the single motive behind our request, as expressed in our letters of December 5th and December 10th. Our motives have not changed."

The success (or failure) of FAME is no longer the single concern of the Board of Directors of that organization. It is the important concern of all Ontario Agriculture. The primary concern of course must be the security of the investment made by several thousands of farmers across the province. This investment must be protected and wise leadership must be given in order that the trust of these farmers shall not be violated. But beyond this lies the very important concern of organized Agriculture. The reputation and the future of the Co-operative movement, of organized marketing and general farm organization are at stake, and it is a challenge that none can ignore. As we see it the following organizations have reason to be keenly interested in whatever policies are adopted by FAME, whatever plans are undertaken and in the compatability of these policies and plans with the economic facts of life:—

ONTARIO FEDERATION OF AGRICULTURE—The OFA as the general farm organization, has the social and economic welfare of all farmers as its responsibility. For 27 years this organization has worked toward these objectives and it has been reasonably successful in its undertakings. The OFA has supported the Co-operative movement and has been largely responsible for the development of Ontario's extensive and successful pattern of Marketing Boards. Within the OFA membership are more than 85 organizations and associations representative of all types and kinds of agriculture. The OFA honours and respects the autonomy of its member organizations, but at the same time expects that these members will keep the parent organization informed of their activities.

The OFA has been able, on numerous occasions, in the past, to muster the combined support of its members behind movements that were mutually advantageous to all. It will continue to perform this service. However, the OFA in this instance has been unable to secure the trust and confidence of FAME with the result that it finds itself in the position of being unable to wholeheartedly endorse its undertakings. The farm people who are members of FAME are also members of the OFA. The OFA has a responsibility to its members to keep them wisely informed. Until a greater degree of trust and confidence exists between the OFA and FAME the Federation of Agriculture cannot either advise its members, or estimate the security of the FAME venture. If some error or misjudgment should occur that endangers the investments of our members then organized Agriculture will have suffered a grievous blow and the OFA will have failed its members by not being in a position to either wisely advise or assist them.

UNITED CO-OPERATIVES OF ONTARIO—FAME has been established as a co-operative venture, and although no close relationship exists between the two the mere association of objectives places UCO in a position of direct concern. UCO can do little if anything to help unless asked, but

at the same time the success or failure of any co-operative venture in Ontario will have a direct impact upon UCO. Few people take the time or trouble to discern the differences between various co-operative ventures, but experience has shown us that the failure of one such venture adversely affects the operations of all other co-ops. Thus UCO has every reason to be concerned with the soundness of this venture, with the ability of its leadership, with the degree of support that it has in rural Ontario and whether or not a good working relationship exists between the two. It is imperative that a spirit of mutual trust and "co-operation" be developed between these two Co-operatives immediately. The United Co-operatives of Ontario has at its disposal a most capable pool of administrators and professional Management personnel. It has experience, security and a good reputation. These are assets that FAME can ill afford to ignore and the sooner a close relationship is created the better it will be for all concerned.

ONTARIO HOG PRODUCERS MARKETING BOARD—This Marketing Board has done more to develop orderly marketing of a farm commodity than any other. It is a model that hog producers all over North America are copying. It has prevented vertical integration in the Hog business and maintained equality in the market for all producers. The O.H.P.M.B. has every reason to be concerned with the FAME undertaking. Not only is there a noticeable lack of intimacy between these two groups who should be working hand in hand, there is also considerable doubt as to how FAME proposed to operate within the regulations of the Board. There have been rumours that FAME members' hogs will by-pass the Hog Board. Should this happen, the ability of the O.H.P.M.B. to establish a true market for Ontario hogs will be imperilled. It is time that a positive commitment in this regard is made in order that hog producers and their Marketing Board will be able to plan for the future. Also, the FAME undertaking could well benefit from the experience and reputation of the O.H.P.M.B.

FIRST CO-OPERATIVE PACKERS, BARRIE—As a successful co-operative meat processing plant COPACO has every reason to be concerned with this venture. FAME should not have a detrimental effect upon COPACO's present business area, but the members of this organization also have reason to be concerned over the image and reputation of FAME. COPACO has had over 30 years of valuable experience in this highly competitive business and it seems extremely strange that no efforts have been made to take advantage of this experience. To be forewarned is to be forearmed and it would seem wise that those differences of outlook or personnel which keep these two similar organizations apart should be resolved quickly to the benefit of all farmers.

CO-OPERATIVE UNION OF ONTARIO—The Co-Op. Union of Ontario cannot afford to stand by and watch one of its members embark on a programme of this dimension without becoming deeply involved. If the Co-Op. Union has not been asked to assist, then such a request should be made forthwith. It is the job of the Co-Op. Union to keep a close scrutiny of all Co-op. undertakings in this Province. It is the Co-Op. Union's duty to conduct studies and investigation into the feasibility and possibilities of all undertakings of its members. The FAME undertaking is certainly within this area. The Co-operative movement cannot afford to suffer the set back that a failure or even a half-hearted success can create. The time is ripe for such a study of the business potential of this move by the Co-Op. Union.

ONTARIO DEPARTMENT OF AGRICULTURE—The Minister of Agriculture and his officials have a responsibility and a right to have some knowledge of the projected plans of FAME. We are advised, that at present they have no more, and possibly less, information than the above mentioned organizations. The Co-operative Branch of the Department is interested in the welfare and the health of all Co-operatives with the Co-operative image and the accuracy of its reports on Co-op. business. The Ontario Farm Products Marketing Board has a vital stake in the marketing plans under its jurisdiction and particularly the Ontario Hog Producers Plan. If, as has been intimated by speakers at some meetings, FAME members' hogs are to by-pass the OHPMB, then certainly the effectiveness of this Marketing Plan will be seriously impaired.

ONTARIO FARMERS' UNION—The other general farm organization in Ontario, the Ontario Farmers' Union, has already indicated that it has some serious misgivings about this venture. Speaking recently at Phelpston, Mel. Tebbutt, President of the Ontario Farmers' Union, is quoted as saying that "Farmers Allied Meat Enterprises should remain a theory, and its shareholders should consider taking aggressive steps to have their entire remaining assets transferred to either the now existing First Co-operative Packers of Barrie, or United Co-operatives of Ontario, and many members of the Ontario Farmers' Union, who are shareholders in FAME are becoming quite concerned with the lack of progress, taking place in this meat packing venture . . . this creates a dilemma. Allow FAME to die and you could retard the farm movement for another generation, build FAME and destroy marketing boards; for they both cannot function effectively as separate entities at the same time, under existing legislation".

These are just a few of the reasons why the OFA is extremely worried about, not only the general attitude of FAME toward other organizations, but also about the security of the investments already made by Ontario farmers. An impartial American observer after studying the situation closely, recently said, "If FAME succeeds it will wreck the Hog Marketing Plan, if it fails it will wreck Ontario's Co-operative Movement."

This, we believe is an extreme statement and the two do not necessarily follow. However, unless some action is taken immediately to resolve the differences that seem to exist, unless some catalyst is discovered that will draw all groups together to willingly support a willing FAME undertaking, unless suspicion and distrust is immediately replaced by trust and respect, then surely the Co-operative Movement will suffer dishonour and the investment of thousands of farmers will be in jeopardy.

We believe in co-operative enterprise. We believe in co-operative processing facilities. We believe that the necessary capital is available in rural Ontario to develop a sound Co-operative Meat Processing business, but we are also convinced that only the close co-operation of all groups can mobilize this capital and recruit the type of physical and moral support needed .The question that must be answered and answered now is, "How can this job be done and what is the OFA's role in such an undertaking?"

The solution lies with you, the Ontario farmer, and we await your decision.

The executive committee considered that such was too lengthy a document to present to the Board of Governors and a more concise relation of

the facts entitled "A Need for Unity and Strength", (Exhibit 60) was then prepared by Mr. Carbert and was considered by such Board on February 19th and approved. It was presented to a meeting of the Federation members being held the next day and provided to all members. I do not copy herein such abbreviated document as all facts therein set forth are already set out in Exhibit 59 above copied in full. Such meeting passed a resolution that Federation should seek a meeting immediately between a small committee from each of such associations in an effort to resolve differences.

The next morning, Mrs. Shillabeer, Secretary for FAME, called on behalf of Mr. McInnis, saying it was the wish of FAME to have a meeting between the executive of Federation and a group representing FAME to be held in the latter's office as soon as possible to discuss the subjects or various questions that might arise should FAME decide to meet with Federation directors at any time. Such meeting was held with all six members of FAME executive meeting except the Vice-President, Mr. Huffman, at the Co-operative offices. Mr. McInnis was in charge of the meeting. His attitude was cool and aggressive and demanding what business it was of the Federation executive to make the inquiries concerning FAME. The members of FAME executive committee at such time acted as if they had no trust or confidence in the general farm organization or in other farm organizations.

Clayton Frey, one of the directors of FAME, and who later became its President in December of 1964, says he felt no good would come of such a meeting. He had decided that FAME, to use his own words, "should go it alone". It was obvious that he was very antagonistic to the Federation and during the course of such meeting told the representatives of Federation that they should go back to looking after such minor things as salt on the highways and fixing fences and let FAME look after the important things in agriculture. It was well known to all present that Federation was only a service organization with no funds which it could use for investment but they were nevertheless told that if the Federation had no money to invest in FAME, there was no way they could help. The meeting only served to drastically injure the position of FAME.

The executive committee of Federation felt that inasmuch as they had been authorized and directed to hold such a meeting, that they should report to the different member groups. The executive approved such communication (Exhibit 61) and the same was sent to such members. Such communication is in the following form:

February 25, 1964.

"To Members of the Ontario
Federation of Agriculture and
Presidents of Member Organizations.

REPORT ON OFA-FAME MEETING

At the Meeting of OFA Members on February 19, 1964 the matter of relations between the OFA and FAME was given considerable discussion. The meeting agreed that there was much to be gained by improved relations between these two organizations, and a motion was passed authorizing the creation of a small Committee whose duty it would be to establish liaison with FAME for the purpose of planning

a larger and more extensive meeting between the two, which would be initiated by the OFA.

The purpose of this memo is to report to the Members on the action that has been taken since the Members Meeting and to seek opinions on further action.

On Thursday morning, February 20th, the OFA office received a telephone call from the FAME office, advising us that a letter of invitation to the OFA Executive to meet with FAME Executive was on its way. The purpose of this meeting was "to decide issues for discussion if the FAME Board decides at a future date to meet with the Executive of the OFA".

While this procedure of calling a meeting was not wholly in accord with the motion approved at the Members Meeting it was the opinion of your Executive that this opportunity to meet should be accepted. With this in mind the Secretary-Manager acknowledged and accepted the invitation to have the OFA Executive meet with the FAME Executive at the FAME office, 3271 Bloor Street West, on Monday, February 24th, at 1.00 p.m.

The meeting was held in the office of Charles McInnis, FAME President, with Mr. McInnis acting as Chairman. Others attending were:

FAME—Clayton Frey, Alva Rintoul, Archie Service, Dougal Carmichael, Carl Heningway and Mrs. Mina Shillabeer.

OFA—A. H. K. Musgrave, Wm. G. Tilden, Chas. Munro, Purvis Littlejohn, Thos. Robson, Leonard Laventure and R. W. Carter (OFA Vice-President. Chas. Huffman was absent in Ottawa, representing the OFA at an Eastern Conference Meeting with Hon. Maurice Sauve to discuss Feed Grains and Rural Development).

The OFA Executive were asked to set forth the subjects that they wished to have discussed, if and when FAME decided to meet again at a later date. The Executive pointed to several concerns which they wished to have discussed, as follows:

(1) The need for closer liaison between the OFA and FAME and a more complete understanding of the FAME undertakings by the OFA.

(2) Ways and means by which the full potential of rural support for FAME might be quickly mobilized.

(3) The need for a closer working relationship between FAME and other Ontario organizations which could be of substantial assistance to FAME.

(4) The nature of FAME's financial position.

The discussions lasted for approximately one hour, and the meeting adjourned with no conclusions being reached. The FAME Executive indicated that they would give consideration to the OFA's suggested topics should they deem it necessary to call a further meeting. We have hopes that this matter will be further referred to the next meeting of the Board of Directors of FAME.

Inasmuch as this meeting was called at the request of FAME and not initiated by the OFA, as directed in the February 19th Members Meeting motion, and inasmuch as there is presently no positive assurance that a further meeting between the OFA and FAME will be held as requested in that motion, it is the desire of the Executive Committee of the OFA to notify the Members of the action taken to date. In view of the fact that there was no exchange of information between the two groups, at this meeting, merely a listing of potential areas of discussion, we await further direction from the OFA Members on the action they wish taken.

(signed) R. W. Carbert,
Secretary-Manager."

From then on FAME did not seek advice, guidance or assistance from any other co-operative association in Ontario until after its interest in Fearman's was lost in December of 1964.

At the annual meeting in November, 1964, this lack of harmony was a subject of a resolution presented from Norfolk County. It was in the following words and was carried, namely:

"WHEREAS at least one other major farm organization on the request of its farmer members has attempted to achieve better relations with FAME; and

WHEREAS other farmer co-operatives make use of slaughter plant by-products such as FAME now produces; and

WHEREAS farmers have been told more than once that if they are to get their just and desired recognition they must speak with one united voice; and

WHEREAS FAME shareholders and potential shareholders belong and are leaders in other major farm organizations;

THEREFORE BE IT RESOLVED that the FAME Board of Directors immediately initiate action to work in harmony and co-operate with all other farm organizations and furthermore that this responsibility be delegated and carried out by those Directors who are not on the executive committee."

The failure to give information to its members was also the subject of a motion carried at such Annual Meeting. It was as follows:—

"WHEREAS in the past, information in regard to progress of the FAME programme has been nearly totally non-existent to both members and county chairmen; and

WHEREAS as in the past nearly all of FAME's policies in regard to member information would seem to indicate that there was a deliberate attempt to keep the members as uninformed as possible; and WHEREAS it is essential to make a special effort to keep members informed in a type of co-operative such as FAME where members are considerably removed from the plants which they own as compared to a local community co-op.; and

WHEREAS FAME has a paid public relations office; and

WHEREAS one of the principles of co-operatives is a continuous information and educational programme for its members; and

WHEREAS members who lack information cannot even vote intelligently:

THEREFORE BE IT RESOLVED that a special member information committee be established to provide a steady flow of up-to-date information to the members and to particularly keep the County Committee Chairman in a full state of knowledge of the overall operation of their own FAME Co-operative."

ACQUISITION OF PROPERTIES

FAME has acquired four sites of land on which they contemplated building plants. Particulars of the dates of acquisition and money paid therefor and in connection therewith are as follows:—

Aug. 24, 1962	Department of Highways	Land—Ayr	$ 2,681
Oct. 31, 1962	Rife property	Land—Ayr	55,000
Nov. 27, 1962	Brock, Trott, Artindale	Legal fees—Ayr	931
Nov. 27, 1962	Marshall, Macklin and Monaghan	Survey—Ayr	1,005
June 25, 1963	John Ferguson	Land—Mitchell	10,000
June 28, 1963	Fred Pearce	Survey—Mitchell	731
June 28, 1963	Hunting Survey Corp.	Survey—Neustadt	761
June 28, 1963	Smith & Smith	Survey—Mariposa	800
Apr. 10, 1964	Jenner, Brunt & Crockford	Land—Neustadt	25,000
Apr. 10, 1964	Joseph L. Staples	Land—Mariposa	28,800
Nov. 16, 1964	Harry Whale		632
			$126,341
	Items under $500 not listed		2,269
	Total		$128,610

Other expenditures made on these properties were as follows:—

Oct. 5, 1962	V. H. Ruckre Construction	Gravel—Ayr	$1,323
Oct. 15, 1962	Russel McLaughlin	Well—Ayr	4,693
Oct. 25, 1962	Donald Inspection Ltd.	Soil Investigation—Ayr	700
Jan. 3, 1963	R. Mussleman Ltd.	Land Excavating—Ayr	8,000
Jan. 9, 1963	Treasurer of Ontario	Dept. of Labour Inspection—Ayr	1,002
Jan. 23, 1963	Twp. of North Dumfries	Building permit—Ayr	800
Jan. 28, 1963	Russel McLaughlin	Well—Ayr	717
Apr. 21, 1963	Durham Drilling	Well—Neustadt	698
Apr. 26, 1963	M. Snyder	Wood cutting—Ayr	514
June 28, 1963	Fred Pearce	Soil Investigation—Mitchell	731
Aug. 21, 1963	N. N. Faulkner	Well—Mariposa	2,117
Jan. 28, 1964	Edwin Keeso	Well—Neustadt	567
Feb. 25, 1964	N. N. Faulkner	Well—Mariposa	1,705
May 16, 1964	Edwin Keeso	Well—Neustadt	2,198
May 26, 1964	Wardlaw, Whittaker	Legal—Ayr	2,875
June 26, 1964	W. A. Trow & Associates	Soil Investigation—Neustadt	650
June 26, 1964	W. A. Trow & Associates	Soil Investigation—Mariposa	524

June 28, 1964	R. Mussleman Ltd.	Land excavating—Ayr	5,752
Aug. 18, 1964	N. N. Faulkner	Well—Mariposa	1,440
Aug. 18, 1964	Pigott Construction Co .Ltd.	Quotation—Ayr	5,000
Dec. 2, 1964	Township of North Dumfries	Taxes—Ayr	710
			$42,716
	Items under $500 not listed		2,583
	Total		$45,299

At first the plan was to build a main slaughter processing plant at the Ayr site, with further slaughtering and minor processing plants at Lindsay and Smiths Falls and slaughtering plants only at Mitchell, Neustadt, Chatham and Belleville. From these last four plants, those carcasses which were to be processed were to be taken to one of the processing plants. At a later date because of lack of funds and the cost of construction, the plans were changed, that only the Ayr, Lindsay, Mitchell and Neustadt plants were to be constructed. By the spring of 1964, it was decided to reduce the Ayr site to a slaughtering plant only and to postpone construction at Mitchell and Mariposa. Tenders had been received from the Pigott Construction Company to construct the Ayr plant at a cost of $2,250,000, but early in 1964 this was increased to $2,500,000. It was when considering plans of Pigott Construction Company to build the slaughtering plants at Ayr at a cost of $849,000 and at Neustadt of $845,000 in July of 1964, that the opportunity of buying the Fearman plant first arose. The land at Neustadt, together with the crops and timber thereon were resold at a total figure of $23,354. The land at Ayr, Mariposa and Mitchell are still owned by FAME but subject to a mortgage for $25,000 on the Ayr property and $5,000 on the Mariposa property; there is a contingent liability on the Mitchell property in respect of a claim to an indebtedness of $1,325 in respect to the mortgage which was placed thereon, but the funds were not actually advanced because the mortgagee declined at the last moment to do so. His claim is for the interest that he had lost while holding the funds for investment in the property and for investigation of the title but it is doubtful if he has any real right to such claim.

PURCHASE OF FEARMAN SHARES

Knud Simonsen, who designs and instals meat processing equipment, had contacted John Troy when he heard of the proposed construction of the FAME plant and took him to some of his installations. Early in 1964, he heard of a plant that could be purchased for $200,000 and told McInnis about it. The latter said it was not large enough to suit the plans of FAME but he would be interested in buying the Fearman plant.

F. W. Fearman Company Limited, hereinafter referred to as Fearman, is a public company with an Ontario charter. Its activities were the processing and manufacture of food products but particularly meat and all by-products therefrom. Ernest Robert Gunner lives in England. In 1950, he acquired the shares of Fearman; this was his first venture into business in Canada. He is a man 57 years of age and has been associated with this industry all his life. His holdings in England consist of three

processing bacon and beef factories, two wholesale depots and other similar holdings. His evidence is that business generally is very competitive, particularly so in Ontario. Until about 1961, Fearman carried on its business on Rebecca Street in the City of Hamilton. At such premises the business was profitable. In 1959 he made a net profit of $82,000 and in 1960 about $52,000. Gunner says the recognized average figure for net profit in this industry is one per cent of sales after allowing for taxes and other charges. The maximum capacity of the Hamilton plant was at the point of $9 million in sales and in was operating at capacity. Because that plant was inadequate both in size and hygiene requirements, a site of 58 acres was acquired at Burlington for a new plant. Food Management Incorporated, an advising authority from the United States, made out the basic plan required and thereafter Gunner and his assistants studied and altered them to suit the particular requirements and procured an architect to prepare the final plan. The maximum capacity of this new plant was about $18 million of sales per annum. While some of the equipment was taken out of the Hamilton plant, about 90 per cent of that installed was new. The cost of the land was $65,142. That of erecting the building amounted to $1,412,477. There was expended in new equipment the sum of $701,450. The value of equipment taken from the Hamilton plant was not available but it would appear that the same would have cost about $500,000 when new, but there is no indication as to its age at this time. The statement of the company dated August 29th, 1964, shows the depreciated value of all machinery in the Burlington plant to be $855,767. A strike at the plant which lasted some ten or eleven weeks terminated in September of 1962. The experience of Fearman profit-wise in five years ending August 31st preceding this sale to FAME was as follows:

Year	Gross Sales	Cost of Goods Sold	Percentage of Sales	Net Profit for Period	Percentage of Gross Sales
1959	9,562,799	8,185,155	85.6	82,185	0.9
1960	9,643,830	8,115,400	84.2	52,697	0.6
1961	8,825,643	7,674,273	87	295,143 (Loss)	3.4 (Loss on Gross Sales)
1962	6,725,851	5,976,816	88.9	435,242 (Loss)	6.5 (Loss)
1963	6,933,999	6,111,022	88.1	411,099 (Loss)	4.1 (Loss)
1964 48 weeks	9,514,621	8,280,017	87	388,968	

Depreciation which would have amounted to $110,598 in 1962, $119,105 in 1963 and $121,063 for the 36 weeks ending June 6th, 1964, were not taken in each of those years. To have included such amounts would have increased losses accordingly. In the year 1961, because of the loss incurred, income tax paid previously was recovered in the amount of $40,500. This recoverable amount reduced the loss in that year by the same amount. The result of these figures is that by not taking credit for the recoverable amount of income tax and adding in depreciation on buildings and equipment in the ordinary way, the company would have shown a total loss for those four years of $1,921,826.

The balance sheet of Fearman as of June 6, 1964 was as follows:

ASSETS

Current		
Cash	$ 1,300	
Accounts receivable	562,910	
Inventory	393,725	
Prepaid expenses	12,266	
Total Current Assets	$ 970,201	$ 970,201
Due from Winmor Feed Co. Ltd.	20,517	20,517
Fixed		
Buildings, machinery and equipment at cost	2,913,560	
Less accumulated depreciation (but not including depreciation for 1962, 1963 or for the 36 week period ending June 6, 1964, which would have totalled $359,235)	547,332	
	$2,366,228	$2,366,228
Land (at cost plus net value $48,164) of buildings in Hamilton demolished in 1962)	126,990	126,990
		$3,483,936

LIABILITIES

Current		
Bank indebtedness (secured) (including liability for cheques issued but not cashed $267,876)	$ 883,804	
Accounts payable	143,396	
Accrued charges	109,198	
	$1,136,398	$1,136,398
Mortgage Bonds		
Repayable in annual instalments of $100,000, $50,000 per issue on Jan. 2, 1965 to 1969 inclusive)		
6% issue	250,000	
7% issue	250,000	$ 500,000
Due to affiliated Companies:		
	190,000	
	20,517	
	500,000	
	31,150	
		742,027
Shareholder's equity:		
23,950 issued preference shares	$2,395,000	
2,805 common shares	2,805	
	$2,397,805	
Deficit	1,292,834	
		$1,104,971
		$3,483,936

In the negotiations hereinafter described, it was understood between the parties that before consummation of the sale and purchase of the shares that following adjustments were to be made:

(a) 38.25 acres of the Burlington land and the Hamilton land and building were to be conveyed to Davern Farms Limited for a consideration of $190,000 and the proceeds were to reduce the amount due to affiliated companies by Fearman.

(b) The affiliated companies were to be assigned the amount due from the Winmore Company of $20,517.

(c) There was to be an issue of 8 per cent mortgage bonds to affiliated companies in consideration of cancelling the advance of $500,000 shown owing to this affiliated company.

(d) There was to be issued 310 preferred and 510 common shares at par to the affiliated companies in consideration for cancellation of the indebtedness of $31,510.

Shortly after Simonsen's conversation with McInnis about the sale of another packing plant, Simonsen called back and intimated there was a possibility of the Fearman plant being for sale. Gunner was anxious to dispose of this business because he had lost his manager and had not been able to find a satisfactory substitute. This demanded that he come to Canada oftener and particularly it was not then a financial success. Arrangements were made and McInnis, Clayton Frey, Joseph C. Hemingway and Simonsen went over and inspected the building, with Gunner. This was Simonsen's last association with the matter except the receipt of a $28,000 commission from Gunner.

McInnis was impressed by the plant and it was evident Gunner would sell but was anxious for business reasons that the fact it was for sale should not be made known until a disposal thereof was complete. For the same reason he was opposed to giving an option. He promised to call Mr. McInnis as to the asking price and on the 24th of July did give a figure of either $3 million for the shares of the company or $4 million for the assets.

Edward Walton became treasurer of FAME in November of 1962. He was a chartered accountant of England and Wales and came to Ontario in 1957, when he was employed in similar positions with other commercial companies until he became an officer of FAME. He claimed at the commencement of his testimony that he was not informed of proposals and discussions in relation to the financial matter of FAME, that ought to be discussed with the treasurer of such an organization. He claimed to be treated as a bookkeeper only and that he had on a number of occasions complained to the President that he was not being consulted or told of matters in which it was his duty as Treasurer to advise and that consequently his services were not available to the company to the extent that they would otherwise be.

McInnis called Gunner to see if they might not have a further meeting to discuss the purchase. This request was made on July 27th. Gunner was flying back to England the same day and as there was little time before his departure, it was arranged they should meet at the airport.

David Frederick Ritchie, the Treasurer of Fearman, was with Gunner and Edward Walton accompanied McInnis. The price asked to the two

different methods of sale was repeated. The latter asked Gunner if he would sign a contract not to go into business by way of opposition and if the trademark of Fearman was included in the price. Gunner said that if he wanted all these concessions he should buy the shares of the company. From then on, McInnis directed his efforts towards the purchase of the shares rather the assets. Gunner agreed to allow Walton to examine the books and permit Paul E. Bourdon to inspect the plant, but it was made clear that Troy would not be permitted in the premises. He left the matter of further negotiation with the Treasurer, Ritchie. On the following Sunday, Bourdon came up from Montreal and went through the plant with Ritchie and McInnis and Walton. After the tour they had discussion as to the financial position of the company. On the following day, Monday, July 27th, Walton went to the Fearman plant and spent all afternoon and part of the evening with Ritchie reviewing the trade statements for the last nine four-week periods, balance sheets, June interim balance sheet, the audited statement of the company for the past four years prepared by Clarkson, Gordon and Company and all income tax returns. They also discussed each asset and liability and the indebtedness to the Bank of Nova Scotia which was secured under Section 88 of The Bank Act. It was apparent to Walton that the company was losing about $38,000 a week without adding in depreciation and had lost over one and a half million dollars in the past four years. Nothing was withheld at this time in relation to the financial position of the company and there has been no suggestion during the course of this hearing that Gunner or anyone on his behalf misrepresented the position of the company in any way or withheld any information essential to be known to judge of its worth. McInnis in his evidence said, "I found Mr. Gunner and Mr. Ritchie very honourable men. When they said a thing they lived up to it and I hold them in the highest esteem and respect".

The balance sheet indicated current liabilities being bank indebtedness, accounts payable and accrued charges amounting to $1,136,938 as well as a first mortgage of $500,000 to secure mortgage bonds of which $250,000 bore interest at 6 per cent and the other $250,000 at 7 per cent and the principal whereof was repayable at $100,000 each year. It was indicated during the course of the hearing that Mr. Gunner had experienced considerable difficulty in securing this mortgage loan on the plant.

Walton says that Ritchie did not show him the financial statements but from other evidence I am convinced he is wrong about this. If such were the case, one would have expected him to relate such refusal to his own board immediately. This he did not do. His recollection is that Gunner told them at the airport of the one and a half million dollar losses. McInnis attempts to say that although he asked Walton for his report on the financial structure of the company, that he never gave him any information in respect thereof and did not show him the financial statements of Fearman or tell him of the current liabilities and that he knew nothing of the financial position of the company at that time. It is difficult to understand that the President would send the Treasurer over to examine the books of the company which was under consideration of purchase and not insist on getting a report or some information as to the financial statement of the company when he returned. If he did not get a report he was not justified in telling the building committee the next morning that the company was

breaking even but ought to have indicated the Treasurer had not yet reported on such matter.

Walton says he told McInnis that the company's auditors, Messrs. Sheppard, Cartledge, Hammond, Tossel and Company should look over the Fearman records. He attempts to excuse his failure to report his alleged unsuccessful effort to secure the financial situation of Fearman's by saying that the purchase was being made on the comparison as to the cost of building the Ayr plant with the purchase price of Mr. Fearman's shares. McInnis uses this same argument with distorted figures to justify the purchase of the Fearman shares without the company's auditors making an audit prior to closing. When questioned as to why the company's auditors were not consulted about the purchase, he answered that consulting the auditors had never come to his mind. I have no doubt but that Walton knew of the financial position of the company and its record of losses by Monday, July 21st. I accept Walton's statement that he passed the information on to McInnis. One could hardly expect that the President of the company would hand over one and a half million dollars of his members in the co-operative society and assume the liabilities that were assumed without having ascertained such information.

On Wednesday, July 29th, McInnis called Ritchie and offered two and a half million dollars for the shares. This offer was conveyed to Gunner who was then back in London, but he declined to accept the same and his refusal was immediately conveyed to McInnis. The following day Ritchie told McInnis that Gunner would accept $2,500,000 in cash with a second mortgage for a further $500,000.

MEETINGS OF THE BUILDING COMMITTEE AND THE DIRECTORS RE FEARMAN PURCHASE

The Building Committee with Service, Frey, Rintoul, Pridham, Wettlaufer, Webster and McInnis were meeting on Thursday, July 30th, to consider the tenders made by the Pigott Construction Company as to the building of the two slaughtering plants at Ayr and Neustadt. Prior to the meeting McInnis went over to tell Service of the prospect of purchasing the Fearman plant before this meeting so that Service as Chairman of the Building Committee would not proceed in the meantime to accept any of the tenders for such construction. McInnis joined the meeting and informed them that the Fearman plant was for sale. He also told them that such company's business had been affected by a strike of their employees but that it was now operating at a break-even point and that it appeared quite evident that with proper management a profit could be experienced within a very short period of time. The members of such committee also indicated that he said it had been recommended that FAME if interested should buy the shares of the company rather than the plant and equipment as they would thereby acquire the Fearman trademark and business as well as the complete assets and liabilities and that the asking price was $3 million for the shares. A motion was then passed that such committee recommend to the Board of Directors that the complete Board take a tour through the Fearman plant and thereafter make a decision regarding the purchase thereof.

The Board of Directors were meeting the following morning, July 31st. McInnis at this time reported his contacts concerning the Fearman plant and his inspection of the same with Frey, Hemingway, Charles Walton and Paul Bourdon of Quebec Federee. The minutes reveal that at this time he said that Bourdon had recommended the purchase of this company and felt it could be operated at a profit in a very short period of time. He also told of Fearman having lost business by reason of the strike but that they had now built up their business to an approximate break-even point and that the asking price was $3 million for the shares. Neither Ritchie nor Gunner ever told McInnis the company was breaking even or nearing such point. The entire Board with Walton and Mrs. Shillabeer then toured the Fearman plant and reconvened in the board room thereof in the afternoon. At this time Ritchie was present to answer inquiries. They discussed the entire transaction and told of the half million first mortgage bonds owing by the company and indicated that Gunner was willing to take back a second mortgage of $500,000 if the purchasers so desired. Ritchie also went over the June 6th statement upon which the transaction was based which showed the total assets and liabilities. There was discussion of re-appraising the assets upward by $850,000 to bring them in line with their replacement value but there was no inquiries or discussion at this meeting about the profit and loss operations of the company. They appeared more interested in the size of the plant and its killing capacities rather than its financial record and experience. Mr. McInnis in his testimony seems to think the latter was not important as the record of the Fearman plant

under Gunner's management would be greatly improved when he and his executive took charge; he was overly confident of the impetus that he anticipated would be given to the business by it becoming an asset of the co-operative. He acknowledges he was not concerned about the losses Fearman had experienced because he was confident under FAME management, vast improvement would be experienced and sufficient profit made to take care of these losses, pay interest on the million dollar mortgage as well as the bank loan. He says he had worked out what profit could be expected but did so on the basis of FAME processing $40 million of products annually. To men in the business, such calculation was mere fantasy. He did not want to hear the steadying advice of such experts. Because he entertained this opinionated idea of what might be accomplished he concealed from the other members of the Board the true profit and loss experience of the Fearman plant.

Ritchie says that at this Board conference questions were asked by some of the Directors but that they indicated confusion on the part of those asking the questions as between buying the assets of the company and purchasing the shares thereof.

While still at the board-room of Fearman's, a motion was made by Director Webster and seconded by Rintoul, both of whom were on the Building Committee, in the following words:

> "That a recorded vote of the Board be taken regarding the acquisition of all the shares issued by the F. W. Fearman Company at a price not to exceed $3 million and further that it be referred to the Building Committee to finalize details providing satisfactory financing can be arranged".

An amendment was made by Schmidt with Pridham seconding it in the following words:

> That we request a $5,000 option for 30 days in order to obtain another appraisal and also endeavour to seek additional finances on a mortgage basis."

On a recorded vote the amendment was lost and the original motion carried. The records indicate directors Laventure and Carmichael were not present.

While this motion literally read only provides for the taking of a vote regarding the acquisition of the shares and does not in plain words authorize the actual entering into such a contract with Gunner and so may be interpreted merely as a means of obtaining an expression of opinion of the various Directors at the time, it should not be so strictly interpreted because the subsequent motions and actions of the Board indicate the members treated it as a motion authorizing the Building Committee to consummate such a purchase subject to the following conditions. This motion authorizes a reference to the Building Committee only to "finalize details" and limits the authority by the words "providing satisfactory financing can be arranged". The motion was also made and passed that C. W. McInnis and Service make arrangements to engage a lawyer to act on behalf of the company regarding the purchase of the Fearman Company. Then follows a further motion as follows:

> On motion by Baker, seconded by Anderson, carried, it was resolved that we take an option on the F. W. Fearman Company if necessary."

This last above quoted motion would appear to be in conflict with that purporting to authorize the purchase but the explanation may be this was to be a further course to be adopted if the satisfactory finance could be arranged. One point, however, that is abundantly clear is that whatever authority was granted to the Building Committee was to be excercised only if satisfactory financing of the purchase was arranged.

Immediately following this Board Meeting on July 31st the Building Committee met with Ritchie at the Fearman plant. There had been no further steps taken to ascertain if funds would be available to close the purchase nor any further investigation made. Such minutes record that a verbal agreement was then arrived at whereby FAME would purchase the shares of the Fearman company for $3,000,000. Ritchie representing Fearman and McInnis on behalf of FAME pledged the agreement with a hand shake pending the preparation of a legal document which was to be completed, if possible, during the following week. In giving his evidence, McInnis stated that he considered the above formalities amounted to a binding agreement to purchase such shares and no matter what further information might have come to his knowledge concerning the financial position of the company between then and the actual subsequent signing of the agreement that the same would not have deterred him from executing the same on August 24th as he himself had made calculations which satisfied him FAME could operate such plant successfully.

McInnis says that Gunner would not give an option. It is true that in the early discussion he intimated that he was opposed to this. Thereafter the suggestion was never made to him. The only reason given for his opposition to approaching the sale in such a manner was the disadvantage that would accrue from publicity. Gunner was a man of more than ordinary business ability and experience. He knew that any prudent purchaser would insist upon a complete investigation of the business prior to bidding thereon and that if the officials of FAME had indicated that they insisted upon being given an option while making such an investigation, I am convinced it would have been granted. Gunner was also sufficiently anxious to sell his Canadian holdings that a counter-offer for a much lesser sum might well have purchased the premises. To have proceeded with the execution of the agreement on August 24th without the assistance of the company's auditors was inexcusable. It was another indication of the attitude of the President and some members of the Board of proceeding blindly without the assistance and advice of those qualified to be of help.

ATTITUDE OF VARIOUS DIRECTORS TO THE PURCHASE

Harold John Schmidt, one of the Directors, first heard from another Board Director that FAME was considering the purchase of Fearman's shortly before the meeting of Directors of July 31st. He immediately called McInnis, who gave him no information except to say that a special meeting was being called and that he had not told any of the other Directors and would give the information only at such meeting. He attended at the meeting. He urged that there should be considerable more investigation before binding FAME to purchase and for that reason had made the motion in respect to attempting to first obtain a 30 day option which would give the Directors time to analyse and appraise the feasibility of the purchase and also to look as to what FAME's sources of funds were to complete the purchase and carry on the early operations of such venture. He asked for Fearman's financial statement and was told it was not available then but that one would be produced. When they went to the Fearman plant, he and the other Directors were impressed with the structure of the building and its equipment but acknowledges he had no way of knowing its value and much less the value of the shares of the company. He was desirous of having expert opinion as to the value thereof but the thought seemed to have permeated the Board that no such unbiased opinion could be obtained in Ontario and that the building committee had everything in hand. He eventually voted in favour of the motion to purchase rather than be accused of impeding the same.

Clayton Frey, although a member of the Building Committee, was the only one who voted against the motion. He had three reasons for so doing. Firstly, he remembered that Gunderson, who had worked with Troy, had looked at the plant in 1962 when it was idle and had then reported to the FAME Board and therein referred to minor faults that he thought existed in its structure. Mr. Frey was also apprehensive of the psychological impact it might have on the members of FAME as far as financial support was concerned. My impression of his reasoning in this regard was that he thought there was some danger of members taking the attitude that because FAME had purchased such processing plant that there was no further need for support by way of purchase of shares or debentures. He also felt that after many changes in plans and recession from what had been at first intended by way of construction that the Board had now reached a point where it had completed plans for two slaughtering plants and with almost enough funds on hand to construct them. Another departure from this course might be detrimental and FAME would be on safer ground by commencing to operate such slaughter houses than by entering into the financial obligations that Fearman would demand. He was worried that sufficient financial support was not present and preferred to operate within the funds available at that time. His reasons for opposing the motion in respect of the purchase were sound and it is unfortunate that he did not find more support amongst his colleagues at that time.

When the Board made the decision they did, he felt there was a moral obligation on his part to complete the purchase and that he had no alternative but to go along with it and try to carry it through and he did work with the Board thereafter to implement the purchase. Although he was a member of the Building Committee, he did not thereafter inquire into the adequacy of the financing or into the ability of those seeking the necessary loan to deal with such a financial matter. In fairness to him, it should be pointed out that he was in charge of the sale of shares and his time was extensively taken up with activities to promote such form of realizing capital for the company. He says he knew the risks involved in pledging the shares and that the Building Committee had never given the Board of Directors the opportunity of considering this altered method of closing the purchase. He is now of the opinion that the Fearman deal was an impossible one.

Wilfred Bishop is a graduate of the Ontario Agricultural College. He was a member of the Hog Producers Association and has always been active in farm organizations. He had some doubts about the projection reports made by Troy and thought the payments to him were greatly ahead of services rendered. He felt the majority of the Board were depending too much on an optimism that was developed and that Directors were affected too much by emotional expression rather than business consideration. The Directors were supplied with an abundance of opinion as to the capabilities of the Fearman plant when its purchase was considered. Little attention was paid to the financial position and the financial obligations that were incurred. At the meeting of July 31st there is no reference to the indebtedness of the company to the Bank of Nova Scotia which turned out to be in the neighbourhood of approximately $800,000. Walton had never given the Board a report of the financial structure of Fearman. He was led to believe by McInnis that the only way the Fearman plant could be purchased was by buying the shares. The Board were always led to believe that satisfactory financial arrangements were assured but no definite information was ever given to Directors. He telephoned the office three times between July 31st and the 27th of August but could get no information as to what progress had been achieved in securing the necessary finances. On the latter date he challenged the authority of the Building Committee to sign the agreement in its altered form without referring the matter back to the Board for approval. He voted to approve the purchase on such later date because he was assured that only approximately one-third of the shares being purchased were hypothecated to the note given in part payment and that in case of default all Gunner could reclaim would be one-third of the issued shares which would not be sufficient to allow him to take over control of the company. He was always skeptical of the statements advanced by some on the Board to the effect that the bankers would not loan to co-operatives.

Ormand J. Pridham was a member of the Building Committee as well as the Debenture and Livestock Procurement Committee. None of the Directors had any experience in the meat processing industry and he was very concerned from time to time with FAME's deteriorating relationship with other farm organizations and the mechanics of the Fearman purchase. To a degree he was in sympathy with some of the ideas expressed by Smith and Bishop. At the time of the purchase of the

Fearman shares, the Board was under pressure from members who had been promised that FAME would have had at least some of the promised plants in process of construction before that date. The Executive Committee had not been meeting since the spring of 1964 and matters of policy that should have been decided by that group were being formulated otherwise. He was concerned about the advice of Troy and the amount of money being paid to him and the continual change of plans. As to the purchase, the committee were not given all the relevant facts. Although on the building committee, he did not know of the amount of Fearman's bank loan until after the agreement was signed and was not aware that such was being assumed under the purchase of shares.

George A. Rintoul, one of the members of the Building Committee, said they were assured by McInnis and Bourdon that the committee could be almost sure of the finances being provided for closing. He realized that the one and half million dollars paid on the agreement might be lost if the million dollars was not available in 90 days.

Leslie R. Webster from Little Britain near Lindsay, was also a member of the Building Committee. He accepted McInnis' leadership in all matters and exercised very little independent judgment in deciding what should be done as far as the purchase of Fearman's was concerned. He said he knew the extent of the bank loan but felt the onus was on the building committee to complete the deal if satisfactory financing was available and it was his opinion that giving a note to Gunner for a million dollars payable in 90 days with the shares purchased hypothecated as security therefor could be termed "satisfactory financing". He knew about the losses Fearman had experienced but explained that with the research FAME had done he had no worries but that such organization could successfully operate the Fearman plant. However, any research that appeared in evidence as having been procured for FAME certainly would not have been helpful in operating such a business. Rather than accept responsibility for the unbusinesslike way of closing the purchase, he puts the blame for the failure on other farm organizations and on mythical interests he pretends were working secretly against FAME.

Joseph C. Hemmingway, one of the Directors, claims to have known that all the shares were pledged as security for the note but insists that without satisfactory arrangements having been made he still would have voted in favour of closing the purchase on that basis. It is difficult to understand how a person entrusted with the powers of a Director under FAME's constitution could treat so lightly his obligations; one would expect him to use at least ordinary judgment to safeguard the funds of the members entrusted to the Board of Directors.

Raymond E. Anderson, one of the Directors, thought that the purchase was of Fearman's assets rather than the shares and had no knowledge of its loss experience. He did not think that there were any interests opposing any progress that FAME might make and did not agree with suggestions advanced by some members of the Board that other packing interests were using influence to either impede them or find out the information as to the structure of the plant or as to their business plans.

Lorne John Wettlaufer and Archie Service, two of the other Directors on the Building Committee, thought that shares to the value of $1 million only was pledged as security, otherwise they would not have approved of closing the purchase on that basis. Even though the latter was Chairman of the Building Committee he exercised little judgment of his own in the purchase of the Fearman shares but resigned all his authority in such position to McInnis whose dictates he followed implicitly without question or doubt.

PRELIMINARY STEPS TAKEN AS TO MANAGEMENT

After the agreement evidenced by the handshake, the President stated that he was very much concerned about the responsibilities that had arisen from the purchase and so on the following Monday morning he went to Montreal to get Bourdon's advice as to how the Directors might, to use his own words, "measure up to these responsibilities and obligations." It was most unfortunate that he did not at this time see fit to interview the senior officials of Copaco. Even though offers of assistance had previously been rejected, its officers still would have been willing to lend the benefit of their long experience. In this conversation with Bourdon it became apparent that he was interested in obtaining a contract with FAME whereby that company would pay him for such advice or help he might give. The next day McInnis asked the Directors, Service, Webster and Frey to come to Montreal to join in the discussions. At this meeting Bourdon suggested James Allardyce as Manager of the Fearman plant. At a meeting of Directors on August 11th, Messrs. Service, Webster and McGillivray reported on their meeting with Bourdon and of the latter's interest in accepting responsibility in a managerial capacity should FAME purchase the F. W. Fearman Company and that he would assume the responsibility of supervising Allardyce if the Board so desired; they said that Bourdon had assured him that he would terminate his services with Co-Operative Federee and maintain a full line position with FAME if the Ferman Company was not in a profit paying position in the first six months.

At this same meeting of FAME a motion was carried that Mr. Allardyce be hired as Manager at a salary of $14,000 annually plus $125 per month car allowance and that Mr. Bourdon be hired as consulting Manager at a salary of $15,000 per year plus expenses; provided that the agreement to purchase the F. W. Fearman Company by FAME was finalized. Both appointments were ones that should be made by the Fearman Board and not by the Board of FAME. From the minutes and from the evidence given it would appear that very little inquiry was made as to the ability of either of these men to carry on the duties to be expected of them.

ATTEMPTS TO OBTAIN FURTHER FINANCES

During 1963 and prior to August of 1964 many efforts were made to obtain supplementary financing to assist in the construction of the Ayr and other plants, without success.

On August 17th McInnis and Bourdon with Walton went to the Toronto-Dominion Bank in connection with a loan of one and a half million dollars from the Canada Permanent Mortgage Corporation. At that time Mr. Robert Much, the Superintendent of such bank, advised them that they should be consulting FAME's auditors and lawyers before doing anything further. He also advised they should secure a thirty day option to enable them to examine the records of the company fully and arrange their necessary finances. Such banker suggested it did not look like a good investment. They also made an application through such bank for a $100,000 loan but it was declined.

McInnis does not make it clear as to when he first knew of the $1,400,000 loss of the Fearman Company over the previous four years, but Mr. Much is positive that he knew of such loss on this date because they advanced the theory that the loss of these previous years was valuable to them as an income tax credit against such taxation if the co-operative operated Fearman as a profit in future years. In giving a list of valuations they had valued this loss as an asset at fifty per cent of $1,385,000 or $690,000. Bourdon at this meeting told Much that he was not a financial man.

On August 26th McInnis went to the Mercantile Bank of Canada to ascertain if that bank would make Fearman an operating loan of $300,000 under Section 88 of The Bank Act, an assignment of accounts receivable and the guarantee of FAME. Charles W. Arnold, the supervisor of such branch for Ontario, said he would need considerable more detail and it was arranged that Mr. Walton would come to see him and give him the information required.

The Treasurer did see Arnold the next day. The latter, on finding that such officials had not discussed such proposed loan with Fearman's regular bankers, The Bank of Nova Scotia, insisted that the matter be cleared with that bank first. He was told that FAME was getting a $2,000,000 mortgage loan on the plant from an American Insurance Company. On the 28th of August, Walton came back and said they had talked matters over with the Bank of Nova Scotia and as a result preferred to have their banking arrangements as they were, so the request for the operating loan was cancelled. It was indicated, however, that FAME needed another $100,000 to make up the one and a half million dollars down payment to Gunner. Such loan was arranged repayable in ninety days at $5\frac{3}{4}$ per cent interest but on the following terms: (a) the auditors of FAME were to certify at the end of each month a statement of all post-dated applications by members for shares or debentures of the company; (b) FAME was to pay into an operating account of such bank all post-dated cheques as they became due; (c) to pay into such account other cheques which might be received

for share capital or debenture subscriptions; (d) pledge as security for the loan all post-dated share capital and debenture applications and cheques currently totalling approximately $125,000; (e) as additional security provide such bank with a written guarantee of repayment of such loan signed by FAME's directorate.

The note was guaranteed by 13 of FAME's Directors. This loan was repaid by funds from applications for shares and debentures except as to $6,000, which was repaid by Directors of FAME personally.

CLOSING THE FEARMAN PURCHASE

Gunner came back to Canada on August 6th. The following day he and his Solicitor, Mr. Hickey of Hamilton, and the Treasurer, Ritchie, met with McInnis and Mrs. Shillabeer when arrangements were made for a further meeting which took place at FAME's office in Toronto to work out the details to be included in the written agreement. McInnis had engaged the legal firm of Wardlaw & Whittaker to act for FAME in the purchase of such shares. Mr. Hickey prepared a draft agreement which first came into the hands of Walter John Whittaker, the member of such legal firm who was to be in charge of the matter, on August 7th. After reviewing it he attended with the Building Committee the following afternoon to discuss the same. Such agreement provided for a balance sheet to be prepared and given to the purchaser before closing. Mr. Whittaker advised that this should be an audited statement and an opportunity should be given FAME's auditors to have access to Fearman's records and to check the same. It was mentioned at this meeting that Fearman had a substantial loss position. At this time the financial statement of June 6th was not given to such Solicitors and so there was no discussion with them at this time as to what current liability remained with the company except as to the two mortgages for $500,000 each, the first of which was the existing Canada Trust mortgage to secure the bond liability which would remain with the company and the other encumbrance was to be given back to Gunner as part of the purchase price.

On August 10th a meeting took place at FAME's office and McInnis, Gunner, Hickey, Ritchie and Whittaker were present. The draft agreement was discussed at this time. Mr. Whittaker was still worried about the fact that the statement of June 6th, which was to be the basis of the sale, was not audited. Gunner said he was willing to give a guarantee that the position of the company at the date of closing would be as good as that revealed in such statement. FAME's auditors were called and it was then indicated to such Solicitor that they had not been consulted as to the efficacy of the purchase. Until this time Mr. Whittaker had not seen a balance sheet of Fearman, but Gunner did say at that meeting that the company had sustained losses of $1,200,000. There was no suggestion at this time that the two and a half million dollars in cash might not be available to pay on closing. Mr. Whittaker assigned further attention of this matter and the closing of the purchase to his partner, Charles McEwan. Such firm of Solicitors then prepared a counterform of agreement which was submitted to Gunner's Solicitors.

On August 14th Ritchie met with Bourdon, McInnis, Walton and Mrs. Shillabeer when the weekly operating statements from June 6th to August 14th were given to such group. These statements showed weekly losses still being sustained in that period of time in amounts similar to those already described.

On August 18th Whittaker sent a copy of this substituted form of agreement to McInnis and in the accompanying letter then indicated to the

latter his desire that FAME's auditors should be allowed to inspect Fearman's records. In this letter he pointed out the financial demand on the company in meeting these mortgage payments which would amount to $150,000 a year by way of principal plus the interest at the respective rates at $95,000. Such Solicitors did not ask for and were not provided with either the resolution of the Board of Directors or copies of the minutes of the Building Committee in respect of such transaction. There was no advice given in respect to the advisability of purchasing the assets of Fearman rather than its shares. Nor was such alternative discussed by such Solicitors with any official of FAME. The loss experience of Fearman over the past four years was not a subject of discussion between them. On August 19th McInnis and Service came to Ritchie and said there might be a slight delay in producing cash for settlement on August 31st and suggested postponing payment of one million dollars thereof for 30 days.

The Building Committee met on the morning of Friday, August 21st, with all members, including the Treasurer, present. At this time Service reported that he and McInnis had met with Gunner at which time FAME's financial position was explained to Mr. Gunner to the effect that FAME was seeking additional finances to the extent of one and a half million dollars to finalize the purchase of Fearman; it was indicated that this was needed to pay off the first mortgage bonds and the balance of the Fearman shares. Mr. Service stated that Gunner had offered to hold a third mortgage for $1,000,000 for a period of sixty days should FAME require that period of time.

McInnis said that he and Bourdon had contacted several sources with respect to additional finances and that they both felt very confident that finances could be arranged accordingly.

> A motion was then carried in the following form:
> "That we poll a vote as to whether or not FAME today deposits a $300,000 initial payment towards purchasing the shares of the F. W. Fearman Company, Limited, and proceed to seek additional financing for the one and half million dollar balance; if additional finances cannot be arranged by closing date of August 31, 1964, we accept Mr. Gunner's offer to hold a third mortgage for $1,000,000 for a period of sixty days or, if agreeable with Mr. Gunner, for a period of ninety days."

At this time to allay the fears of some of the members it was suggested that Bourdon be called on the telephone as to his opinion whether the money could be raised or not. He advised that he saw no difficulty in getting the money but suggested that arrangements be made whereby the company would have ninety days in which to pay the balance rather than the sixty days suggested. Mr. McEwan was called to this meeting but was not present when the above matter was discussed. He was of the opinion it was a meeting of the Board of Directors rather than the Building Committee. He informed such meeting that Gunner would not permit FAME's auditors to examine his records. Subsequent events verified that it was not that he had anything to hide but that he had already permitted Walton full access thereto and had given full detail and his undertaking to make good any deficiency that might exist on the date of closing. In view of this, he wanted to avoid the publicity that such an audit might make of the pro-

posed sale before its conclusion. No one has suggested that there was any ulterior motive in the position taken at this time in regard to auditors.

At this meeting Mr. McEwan as well discussed with such group the terms of the agreement as he had re-drafted it. He also made it clear his firm did not take any responsibility for the wisdom of the transaction. It was then indicated to Mr. McEwan that the Committee were to meet with Mr. Gunner at the Fearman plant that afternoon and that they had planned to sign the agreement at that time. Mr. McEwan pointed out this would not be possible because they had only received the objections to the counter-draft agreement by telephone that morning and that it would take some time to put together a document in its revised form. He went on to say that it might be possible that a deposit be placed in escrow with Mr. Gunner's Solicitors over the week-end and that during that time every effort would be made to settle the various provisions that remained to be discussed to be put into the agreement.

Mr. McInnis then for the first time informed the Solicitors that while they had expected to have $2,500,000 on hand for closing, that the whole of their moneys were not on deposit and that they had encountered delay but that they had earlier that day made arrangements with Gunner for him to take a mortgage back on a short term basis for $1,000,000. The group with McEwan then went to the Fearman office where they met with Gunner, Ritchie and Hickey. Mr. McEwan obtained a copy of the balance sheet that afternoon for the first time and was thereafter aware of the said Fearman loss position. He understood that Walton had the same and other financial statements for some time. The Building Committee were satisfied to close the transaction without a check by their auditors. The vendor agreed to an extension from sixty to ninety days for payment of $1,000,000 to be made on the terms of the third mortgage to be given back to Gunner. Other smaller details in relation to the form of the agreement were discussed and a solution arrived at.

Mr. McEwan was opposed to closing the transaction on August 31st because of the work involved but the members of FAME Building Committee said their was extreme urgency, giving as their reason that Gunner was becoming nervous as to their intentions and their members were pressing them to either acquire a plant or build one so that the programme might move forward. It was evident that the formal agreement would have to be drafted to include the altered clause and a cheque for $300,000 was given to Mr. Hickey in trust as evidence of good faith of the Directors in respect of the conclusion of the formal document on the following Monday, August 24th. It was appreciated by all that there would not be time to retype the altered form of agreement that afternoon.

After the Directors of FAME left such meeting the said solicitors came to the conclusion that it would be illegal for Fearman to give back to Gunner such a mortgage as it would actually be a provision of security given by the company to ensure payment by the purchaser of the price for its own shares and thereby contrary to Section 23(1) of The Corporation Act, R.S.O. 1960, Chapter 71. Such section is as follows:

> "Except as provided in subsection (2), a company shall not make loans to any of its shareholders or directors or give, directly or indirectly, by means of a loan, a guarantee, a provision of security or

otherwise, any financial assistance for the purpose of, or in connection with, a purchase made, or to be made by any person of any shares of the company."

Subsection (2) thereof does not exempt such a purchase of shares as existed in this case from the prohibitive provisions of the section just quoted.

McEwan suggested that a note might be given in lieu of such third mortgage and Mr. Hickey said that this would be acceptable provided the shares being purchased by FAME were given back as security for payment of the note. Mr. McInnis could not be seen personally that day but Mr. McEwan was in touch with him by long distance telephone at his home at Iroquois on the next day, which was Saturday, and told him of the objections to the third mortgage and that Hickey had suggested a promissory note for the ninety day period collaterally secured by a pledge or hypothecation of the shares. McInnis was to discuss this change with the Directors and unless McEwan heard from him too the contrary by noon on Sunday he would proceed on that basis. No other form of security or method of dealing with the $1,000,000 payment was then discussed.

McInnis's version of this telephone call is somewhat different. He says it was to the effect that Hickey and McEwan agreed there should be hypothecation of the shares to the value of $1,000,000 and that he, McInnis, said he would call the committee together.

The Building Committee did meet on Monday, August 24th, and the minutes of such meeting contain the following reference to the discussion:

"Discussion was held regarding the third mortgage on the F. W. Fearman Company. As it appears it is not legally possible to effect such a mortgage, our Solicitors have suggested, in agreement with Gunner, that FAME execute a promissory note for the $1,000,000."

A motion was then made and carried as follows:

"That we execute a promissory note—secured by $1,000,000 in preferred shares of the F. W. Fearman Company to be held in escrow."

Mr. McEwan acknowledges that he did not seek or receive any assurance that the other Directors were in agreement with this change as he had always dealt with McInnis and continued to receive instructions from him and did not have any idea the meeting was held that morning to deal therewith. McEwan never asked for and did not see the above motion. The difference as to the extent of shares hypothecated was of considerable importance because a minority holding of shares would not give Gunner the immediate right to repossess the plant on default. Mr. McEwan says he did not consider it in his purview to question whether there was a proper quorum or whether a meeting had properly been convened or whether the resolutions internally in the same organization were being passed in accordance with their by-laws. He stated they were not general counsel for FAME and that they were simply mechanics brought in to prepare documents.

However, the evidence indicates the role of such Solicitors was a great deal more than a drawer of documents because in the next week the Solicitor wrote a letter to McInnis recommending the adoption of a differ-

ent form of general by-law for the company just taken over by FAME. The language and amount of the account subsequently sent to FAME for services rendered in this matter is not one consistent with a meagre task of preparing documents. Such Solicitors never did examine the Directors' and shareholders' minutes or the minutes of the meetings of the various committees of Directors nor look for nor ask for a copy of any resolutions authorizing that FAME purchase these shares. The form of hypothecation attached to the note was not discussed or gone over by any member of such firm with McInnis before he signed it.

McInnis's interpretation of the conversation with such Solicitor is supported by the form of motion passed by the Building Committee the next forenoon but it may well be that he did not understand the matter correctly and misinterpreted it to other members of the Building Committee. There appeared the general belief among the Directors that only $1,000,000 per value of preference shares had been so pledged. Service, the Chairman of the Building Committee, as well as Wettlaufer, were of such opinion, but Walton says he knew all the shares were pledged. Frey did not concern himself as to the extent of the shares so hypothecated. Pridham says he was assured at this time either by McInnis, Service or Frey that less than half of the shares were held as such security.

Bishop says the Directors were told at the meeting of August 27th by either the President or by the Building Committee that there was no danger of losing control of the company even if there were default at the end of the ninety days as the hypothecation affected only one-third of the shares. In any event, this drastic change in the original plans to purchase was never submitted to or approved by the Directors prior to the signing of the official documents on August 24th.

At a meeting of the Directors held on August 27th a motion was made by Service and seconded by Webster and carried in the following form:

> "It was resolved that this Board approve of the agreement between E. R. Gunner and Farmers' Allied Meat Enterprises Co-Operative Limited."

When it was read to and approved by the Directors at the meeting of August 27th, the terms of the pledging of the shares was misrepresented to them and material facts in relation to the financial position of Fearman were concealed from them.

On Monday, August 24th, the agreement had been finally signed at the Fearman office. McInnis, Service, Walton, McEwan, Mrs. Shillabeer, Gunner and Hickey were present. There was no further discussion as to the form of the hypothecation at this time.

The formal agreement that was executed, after providing for the promissory note for $1,000,000 payable in ninety days, contains the following words and figures:

> "And as collateral security to the said promissory note the purchaser at the time of closing shall execute a document of hypothecation addressed to the vendor under the terms of which the purchaser shall charge its ownership in the capital of the company acquired by it from the vendor under the terms of this agreement to the extent of $1,000,000 and the hypothecation aforesaid shall be noted in the share

transfer register of the company. Payment in full of the promissory note aforesaid shall operate as a complete discharge of the said hypothecation."

The formal agreement provided for closing on August 31st. On that day the Directors of both Boards met and the balance of the purchase price payable in cash in the sum of $1,200,000 was turned over to Gunner and the promissory note for $1,000,000 was signed on behalf of FAME by McInnis, as President, and Mrs. Shillabeer, as Secretary. Such promissory note contained the following provision:

"Provided that this promissory note is collaterally secured by an hypothecation in favour of Ernest R. Gunner under the terms of which Farmers' Allied Meat Enterprises Co-Operative Limited has charged its ownership in the capital of F. W. Fearman Company, Limited, acquired by it from Ernest R. Gunner on this date."

Attached to such note was a memorandum also signed by the President and Secretary of FAME which was in the following form:

"To: Ernest R. Gunner,

48 Greenhill House,
90-93 Cowcross Streeet,
London E.C. 1, England.

The undersigned as collateral security to its Seven per cent (7%) Note in your favour maturing November 30, 1964 in the principal amount of One Million Dollars ($1,000,00.00) hereby hypothecates and charges its interest in the capital of F. W. Fearman Company, Limited acquired from you today to the extent of such principal amount.

AND IT IS AGREED between the undersigned and you:

1. That the share certificates evidencing ownership in the capital of F. W. Fearman Company, Limited shall remain the custody of the undersigned while the said note is not in default and the existence of this hypothecation charging the interest of the undersigned in the capital of the F. W. Fearman Company, Limited shall be noted in the share transfer register of such Company until payment in full of the said note as evidenced by a receipt in writing from you to such effect whereupon the undersigned shall be entitled to have the notation expunged from the share transfer register of such Company.

2. Upon default being made by the undersigned to repay any principal moneys or interest secured by such note and collaterally secured hereby, you shall be entitled and are hereby authorized to sell the interest in the capital of F. W. Fearman Company, Limited acquired by the undersigned from you today or cause the same to be sold in whatsoever manner and whether by private sale or upon any stock exchange and for such price and on such terms and in whole or in part from time to time as you think best and without notice of any kind to the undersigned or other notice or information, all of which the undersigned specifically waives, and to execute transfers of any securities sold as aforesaid and to apply the

net proceeds thereof after payment of the costs and expenses of the sale and your costs and expenses, to the repayment of the said note and interest, after payment of which in full any surplus shall be paid to the undersigned: the whole without prejudice to your right to claim repayment by the undersigned of any indebtedness to you secured hereby without resorting to sale of the collateral and to claim repayment of any deficiency upon any such sale. And upon default the undersigned shall deliver up to you the share certificates received from you today and upon its failure to do so you shall have full right and title to seize the shareholders' register and share transfer register of F. W. Fearman Company, Limited and to take whatever steps you deem necessary to rectify such registers. DATED at Hamilton this 31st day of August, 1964.

FARMERS ALLIED MEAT ENTERPRISES
CO-OPERATIVE LIMITED

(Signed) Charles W. McInnis
President

Mina Shillabeer
Secretary"

John F. Varcoe, associate with FAME's Solicitors, attended for his firm at the time of such closing. There was no discussion with McInnis about the hypothecation agreement at the time although it was then signed by him as President and Mrs. Shillabeer as above indicated.

A meeting of Fearman Directors and later one of shareholders was held that afternoon. Shares were recorded in the names of the new nominee Directors from the FAME organization. These were Service, Rintoul, McGillivray, McInnis, Frey, Baker, A. Anderson and Webster, McInnis was made President of Fearman with McGillivray and Webster 1st and 2nd Vice-Presidents respectively. Ritchie was retained as Treasurer of Fearman. 24,260 preference shares and 3,307 common shares of Fearman were transferred to and recorded in the name of FAME. This Co-operative thereupon became the owner of the shares of the Fearman Company. This did not change the status of such last mentioned corporation. It remained a corporation of the same kind and character as it enjoyed prior thereto. It did not acquire any of the qualities of a corporation incorporated as a co-operative under Part V of The Corporations Act. While FAME as owner of the shares of such company would have complete control of the appointment of the Directors, all that it could acquire financially from it was the dividends declared from time to time.

At this first meeting of the new Directors, McInnis produced an agreement between FAME and Bourdon (Exhibit 116), which provided for hiring the latter as a consultant in its organization, management and financial problems and all its subsidiaries for a period of five years from August 3rd, 1964, free of all provincial and federal taxes, at an amount of $15,600 yearly payable weekly, plus all expenses incurred by Bourdon in the performance of his services. It also provided "that the contract could not be revoked under no consideration" by the employer before the date of its expiration. Mr. Varcoe advised against entering into such a contract for several reasons. The most obvious one was that it purported to be a

contract with FAME while this was a meeting of the Directors of Fearman and the services were in fact to be rendered to Fearman. Other reasons were that it did not define Bourdon's duties and it could not be terminated for any reason and that with Mr. Bourdon's other income, further tax payment of about $10,000 might be involved to bring his total remuneration to about $25,000.

Varcoe says that he had the impression Mr. McInnis was anxious that the agreement be dealt with and entered into at that meeting. He attempted to get Mr. Bourdon on the telephone without success and the resolution was finally enacted whereby McInnis and one of the Vice-President together be authorized to negotiate a written contract of engagement with Paul Bourdon with remuneration not to exceed $15,600 per annum together with expenses and that such contract should not exceed five years. An agreement was eventually drawn (Exhibit 20) between Fearman and Bourdon whereby the latter was to be paid $18,000 per annum as a consultant for a period of five years, together with his travelling, accommodation and promotion expenses, but with a right to the company to cancel without reason on giving twelve months written notice. Mr. McInnis never told the other officials of Quebec Federee of this agreement with their Superintendent nor were Bourdon's senior officials aware of it until shortly before this Inquiry commenced. Bourdon was permitted to engage Allardyce at a salary of $18,000 per annum with an expense allowance of $125 per month. In the meantime FAME was paying Bourdon a salary which amounted to $6,400 over a period of about three months.

At the official take-over of the plant on August 31st Pridham overheard one of the Solicitors in reviewing the details of the purchase relate to the Fearman Board that the hypothecation of shares covered $1,000,000 worth of shares. He became very worried that if this were the case FAME might stand to lose everything if default were made in payment. He discussed the matter with Bishop and they decided that Schmidt should be contacted immediately because a meeting of Directors was called for the next day. He was not able to contact the latter until 4.15 in the morning. They considered the matter so serious that they discussed what might be done for half an hour in that early morning long distance telephone call. At the meeting of the FAME Directors the same day, Schmidt moved that copies of all documents that had been signed by FAME in the acquisition of Fearman be prepared and presented to the Directors but this motion was lost and in place thereof it was provided that upon the proper request such documents be made available to any FAME Director but that such documents should not leave the FAME office. Schmidt was not permitted to make copies of such documents and copies were not provided for the consideration of Directors when the agreement had been read and approved at the meeting of August 27th. Such document was couched to a considerable extent in legal language and it is quite evident it was not fully understood by many of the Directors. At the hearing few of them seemed to understand it. As a result of their concern Schmidt and Bishop contacted informally a number of men occupying positions of influence in organized agriculture, about 15 to 20 in number, to decide what might be done to circumvent the very disaster that did develop by December 1st. These men met but took the position that since it was only a small number of the Directors of FAME who were seeking this help that nothing could be done to interfere with the right of the majority to carry on with their plans.

OPERATION OF FEARMAN BUSINESS AFTER AUGUST 31st

McInnis would have us believe that under the new management Fearman's business was more profitable, but the figures given by the Treasurer do not agree with this. Ritchie says that in the three months period following September 1st that employees were reduced by 20 per cent, the volume dropped 12 per cent, and that the net losses which continued indicate that the results were not progressing to any material degree. For the periods ending September 26th, October 24th and November 2nd, loss amounted to $40,000, $25,000 and $34,000 respectively, without including depreciation or interest on FAME debentures. If interest were to be paid on a $2,000,000 mortgage it would increase these losses by a further $16,500 per four week period.

ATTEMPT TO SECURE FURTHER FINANCES AFTER AUGUST 31st

The Bank of Nova Scotia had been the bankers for the Fearman Company long prior to Gunner acquiring control of the same. William C. Meek is the assistant general manager of that branch. He first learned of the sale on August 10th from Gunner. At that time Fearman owed such bank $740,000 by way of operating credit and an additional $250,000 which was a term loan secured by bonds of an equal amount which had been issued by such company and by a registered general assignment of the accounts receivable and the security of the inventory under Section 88 of The Bank Act as well as an assignment of bills receivable. Gunner had been a valued customer of the bank for many years and although there was no written undertaking so to do, a verbal arrangement existed whereby he would personally put up additional funds through the company when needed. About August 31st Gunner brought McInnis to the bank to introduce him to the officials thereof. At that time McInnis was told such bank would consider financing the company at a maximum of one-half million dollars secured by accounts receivable and the inventory with margin of 50 per cent if the company's finances could get into a position satisfactory to the bank. No commitment, however, was then made. This would involve a reduction of $240,000 from what was then owing as the bank would not have such mortgage bonds for security after Gunner disposed of his holdings. After the change in ownership of the shares the credit was still extended but no arrangements were made for a formal line of credit on a continuing basis. The bank kept in almost daily communication with Ritchie who was still Treasurer of Fearman's.

On September 21st Gunner loaned the company $300,000 which was applied on the bank loans reducing them to slightly under $500,000. Mr. Meek pointed out to McInnis and Walton that if there were a loan of $2,000,000 secured against the assets of Fearman there would necessarily have to be a very marked improvement in the operation of such plant to service the debt and eliminate the losses that had been recorded in the previous years. The interest and principal payments on such mortgage would be additional debt which the company did not have to previously meet. To emphasize such point a calculation was made which indicated that the operating result of the Fearman Company would have to be improved to the extent of six or seven hundred thousand dollars annually in order to eliminate operating losses that had been suffered and provide for servicing of the debt that would be created as a result of that mortgage. This appeared to be a very serious challenge. As the bank was worried about the state of the account, a letter was written by the superintendent to Mr. McInnis on October 20th in which he states (Exhibit 25):

> "You are aware of F. W. Fearman Company Limited's dire need for funds and our dissatisfaction with the manner in which the account has been operated. The information you have provided has shown us that share and debenture subscriptions for the period September 1st to October 16th total $58,200 of which apparently $38,680 was in cash and the balance of $19,520 in the form of post-dated cheques.

> We understand that FAME would be transferring the proceeds of all subscriptions to Fearman but so far, according to our information, only $16,000 had been so transferred; whereas FAME has raised $38,680 as indicated above. We would like to know what has been done with the difference of $22,000.
>
> We also requested the financial statement (balance sheet) of FAME for August 31st, 1964."

Mr. McInnis wrote back saying that because of the season of the year the salesmen of FAME debentures and shares had been busy at their farm work but that by the following week funds would be coming in from such sources at $15,000 to $20,000 a week and after deducting therefrom the cost of promoting the programme the balance would go towards crediting such bank account.

The loan situation did not improve from the bank's viewpoint as it was not provided with what its officials considered to be reasonable assurance of source of funds, but nevertheless the financing was carried on a day-to-day basis. The bank finally asked for a meeting to be held in their office on November 27th. It was attended by Ritchie, Allardyce, and Smith of Clarkson, Gordon & Company, Fearman's auditors. McInnis was to have been there but did not attend or give any explanation as to his absence. The purpose of the meeting was to work out some mutually satisfactory arrangement for the continuation of the financing of the company insofar as such bank was concerned. The result of the meeting was that Fearman was given 30 days to place the account on a satisfactory basis or secure financing elsewhere.

A further meeting was held with such bank officials on December 9th when Walton attended with Mr. McEwan. The bank officials felt that the officers of FAME had not been informed of the unsatisfactory state of the Fearman position with the bank and so for this reason were very specific in telling Mr. Walton, the Treasurer of FAME, and such Solicitor that the bank must be relieved of the company's liability by January 4th, 1965.

McInnis was assuring the Board Members at each meeting that the financing necessary to pay the Gunner note when it became due on November 30th was assured and would be available. As indicated earlier, Bourdon did not pretend to be a financial man and had not purported to have the experience or ability to arrange or secure moneys in the amount required. The Board had never sought or secured the advice of any qualified person as to whether there was any probability of raising $1,000,000 on the real property of the Fearman plant. McInnis' and Bourdon's attempts to interest capital to so invest were fruitless and ought to have made it apparent that a loan of $2,000,000 could never be secured on the assets of Fearman. Gunner had experienced considerable difficulty in securing the $500,000 mortgage on the plant. Bourdon was in Chicago, Montreal, Quebec City, London, England, and other centres for this purpose without success.

On November 18th, a motion was passed by the Board of Fearman as follows:

> "It was resolved that in order to assist the financing of the Fearman operation, we recommend to the FAME Board that every member of

> the FAME Board sign a note for $1,000 payable on demand, and that we ask every member of the FAME Board to canvass county committeemen for collateral notes of at least $500 each and that there be a general canvass immediately."

This recommendation was reported to the FAME Board at its meeting of the same day; the minutes indicate that discussion followed with respect thereof but there is no information as to how many of the Board actually did sign such a note.

A contact had been made in September with the firm of Williard National Inc., New York City, who were financial brokers. McInnis and Bourdon had been over to see this company. On or about September 3rd they with McGillivray returned to discuss the prospects of such loan when a commitment was made to such firm that the loan would be guaranteed by FAME and that all financial statements would be given for consideration by the proposed lender and FAME would pay all expenses in connection with the loan and finder's fee of 2 per cent on the principal amount. At such time FAME made a deposit of $20,000 with such firm and certain financial data was furnished by such FAME personnel. Such loan never materialized. When FAME demanded that such deposit be returned the Solicitors for Williard National Inc. wrote back refusing such request, alleging misrepresentation had been made in the material filed. It may be that in making such application the figures provided did not show the book value of the Fearman shares at the time of purchase or that the price paid included a very considerable sum for intangible assets such as good will and trade name. In any event, it was not good judgment to attempt securing such a loan in the manner undertaken or to become committed with such expense as was involved. The interest would have been 9¾ per cent for the first 18 months to 3 years, payable in American funds, plus the finder's fee of 2 per cent the first year, which would make a total interest rate of 11¾ per cent. Ritchie had advised McInnis that the company could not bear such interest.

On November 10th the Solicitors in New York acting for such financial brokers had written to McInnis advising that due to the alleged misrepresentations contained in the financial statement and other documents, the lender had determined not to make the loan. Despite this, the minutes indicate that McInnis reported to the Board of Directors on November 18th concerning this matter as follows:

> "The Chairman reported on Mr. Bourdon's contacts in New York regarding finance and that money had been assured."

As far as the evidence indicates, none of the other members of the Board knew of the refusal of this loan and no information concerning the same was given out at the annual meeting on November 25th. At such annual meeting McInnis reported on the endorsation by the Board of a proposed general canvass amongst shareholders to sign collateral notes, stating that there was no intention on the part of the Board to ever make a call on the notes but rather to be used for the purpose of securing supplementary finances. He further said that with the purchase of the Fearman plant, additional moneys were then needed for working capital and expansion purposes and it was requested that serious consideration be given to those present at the meeting to the signing of such notes which were distributed for signature at such time.

Such minutes record that Directors Bishop, Service and Frey as well spoke in respect of such matter urging the members to sign collateral notes for the purpose of securing supplementary financing. After the collection of the notes it was reported that approximately $80,000 in notes had been received from those attending the meeting that day.

At the Directors' meeting of December 1st, the President announced for the first time that the funds were not available to meet such note and that Gunner had offered to take a second mortgage of $1,200,00 providing FAME could obtain a first mortgage in order to pay him the $1,100,000 then due him. It was also noted at such meeting that the Bank of Nova Scotia had been pressing for further funds and that negotiations were under way to secure a mortgage for $75,000 on the lands at Ayr, Neustadt, Mariposa and Mitchell. The Board approved an application for a loan from the First Spice Mixing (Sales Company) Canada, for a loan of $75,000 for one year at 8 per cent, and also that negotiations be continued with Gunner regarding his offer to take the second mortgage on the terms hereinbefore set out which involved payment by January 4th, 1964. At this meeting McInnis resigned as President and by a majority vote the same was accepted but he remained a Director of FAME until January 25th.

In connection with such mortgage the same was executed and registerd and a cheque for $68,762.45 sent to FAME but the same was cancelled because the mortgagee learned of the financial position of the company. The mortgage has been discharged as to all properties excepting the Mitchell property. The mortgagee claims approximately $1,300 for costs of investigation of title, interest, and refuses to discharge this property until payment thereof.

A further meeting of FAME's Board was held on December 10th when Clayton Frey was elected President. At this time George Wilkie, the Secretary-Treasurer of Co-Operative Union of Ontario, joined the meeting and assisted in the discussion as to the ways and means of raising supplementary financing. It was resolved to cease attempting to sell debentures and common shares and concentrate efforts on the sale of mortgage bonds and collateral notes among the members. It was decided to use the collateral notes above referred to and any further such notes given to pay Gunner and in the event of failure to raise the necessary amount that the notes should be returned to the makers thereof. At such meeting it was resolved that a letter should be sent to all shareholders outlining the present financial situation of the company and at the same time appealing for funds with applications for shares or debentures with the cheques to be made payable to the Metropolitan Trust Company to be held in trust until such time as $1,500,000 had been raised, and if sufficient funds were not received by December 31st that the moneys are to be returned.

After such meeting George Wilkie arranged for the executive of FAME to meet with the Board of Copaco and U.C.O. on December 12th to discuss the problems that had arisen and decide what was the best course to follow. On December 16th Wilkie contacted the President of Copaco regarding the possibility of establishing an appraisal committee to view the facilities of the Fearman Company and to reach some decision as to whether it had a reasonable chance of success and if Copaco could

become involved in the assistance given to FAME at that time. Such a committee was formed consisting of Lindsay Ingles and James O. Simpson, the President and General Manager of Copaco respectively, Paul Bourdon and Hector Gravelle, chief engineer of Co-Operative Federee. With Mr. Clayton Frey, who was then President of FAME, the committee went to the Fearman plant on December 21st when they were given full co-operation by the accountant and the meat manager of Fearman and reviewed the balance sheet as of August 29, 1964, projected pork and beef operations, a cash flow projection and a projected balance sheet. It was generally agreed orally by the four members of such committee that Fearman would have a reasonable chance of success if the entire hog kill were converted to Copaco, and the entire cattle kill of both plants was processed at Fearman. Any such union of the two companies would have to be approved by Copaco Board members and membership generally because of the additional financial responsibility associated with the acquisition of the Fearman plant. This proposal provided for the acquisition of the shares of Fearman and the assignment thereof to Copaco and the resulting liquidation of FAME.

In his endeavour to assist Mr. Wilkie, the Co-operative Credit Society indicated that company would advance one and a half million dollars to assist in the amalgamation suggested if the loan were secured by the Ontario Government. The proposal was being considered by the officials at Queen's Park when the President of Copaco stated that the Board of that company had declined assuming the additional financial responsibility necessary to acquire the Fearman shares. Mr. Ingles in his testimony stated that even if all the money required to complete the purchase of the shares and put the company in financial position to operate were obtained, that it was his opinion again from the experience with Copaco, that the capacity of the plant was not sufficient to carry the interest and overhead associated with the enterprise.

Thereafter the new President had been very active in attempting to interest other farm organizations to come to the help of FAME. He had meetings and interviews with Copaco, the Minister of Agriculture, U.C.O. and the O.F.A., at which time the facts in connection with FAME's position were outlined in detail. Copaco expressed sincere interest and were desirous of studying the matter further, he said. The O.F.A. expressed their willingness to co-operate in lending their support and in this connection forwarded a letter to Mr. Gunner's Solicitor requesting an extension of time for FAME to raise the necessary finances. Word had been received that a similar letter had been sent from U.C.O. The Co-Operative Union of Ontario and the Rural Co-Operator had been extremely active in co-ordinating the various farm organizations to discuss and study FAME's position in an effort to give all assistance possible. A meeting had been called for December 28th with representatives from Copaco, C.I.A., U.D.P.C., O.C.C.S., O.F.A., U.C.O., the Rural Co-Operator, Co-Operative Union of Ontario and the Ontario Hog Producers Marketing Board. These groups had appointed a committee to meet the Board of FAME that same day to relay their opinions and take such action as was warranted as a result of their discussions.

Later in the day the Board of Directors met with such group. Mr. Chorney, the U.C.O. Treasurer, in analyzing the status of the Fearman

Company noted that the total current assets totaled $969,000 comprised of accounts receivable in the amount of $508,000, with inventory and prepaid expenses totalling $460,000. In addition to the current assets the balance sheet indicated fixed assets totalling $2,383,000 for a combined total assets of $3,352,000. On the other side of the balance sheet Mr. Chorney indicated the current liabilities of the Fearman Company for the period under review totalled $1,414,000 plus a funded debt of $909,000 for a total liability of $2,323,000. The shareholders' equity, consisting of both preference and common stock, has a gross value of $2,429,000; however, with the accumulated deficit of $1,400,000 being deducted, the shares have a net value of $1,029,000.

Mr. Lindsay Ingles expressed the attitude of the Copaco Board concerning the acquirement of the Fearman plant and the reasons given by Mr. Ingles for rejecting the proposals were as follows: (1) The Board expressed concern and fear of the $200,000 interest charges annually which would be due and payable by Copaco. (2) Additional money would be needed to double the Fearman capacity. (3) The canning division of the Fearman Company was closed down at that time. (4) There had been no employee supervision at any level for at least a year. (5) A number of the present employees are untrained personnel. (6) The present union contract is good, however they are not in a position to produce. (7) The fear of the agricultural producers will not be satisfied with non-interest bearing certificates of indebtedness which will replace the present FAME debentures. (8) Fear of the possibility of impairing the health of Copaco leaders as a result of this increased responsibility.

Mr. James Simpson, the manager of Copaco compared the advantages of purchasing another meat processing plant that was available at $700,000 compared with the Fearman purchase. He compared the two plants as follows: Plant A (Fearman), purchase price $3,500,000, loan repaid by Gunner to FAME, $300,000—$3,800,000—less payment $1,500,000—balance $2,300,000. Payment due January 4th, 1965, $1,100,000; second mortgage payable to Gunner, $1,200,000.

Plant B, purchase price $700,000, loan of $1,000,000 at 5½ per cent would provide $300,000 working capital with interest charges of $55,000.

The ratio of current assets over liabilities on Plant A is .40 to $1.00, whereas the ratio on Plant B is 1.1 to $1.00. In addition the capacity of Plant B is equal at the present time to the capacity of Plant A. As indicated earlier, interest on $1,000,000 needed to acquire Plant B at a rate of 5½ per cent per annum totals $55,000 a year. Interest on Plant A on a basis of 7 per cent per annum on $1,100,000 and 8 per cent on a second mortgage of $1,200,000, totals $173,000 annually.

Mr. Simpson concluded by stating that the proposal is that Plant A should be abandoned and that they proceed to purchase Plant B with Copaco assuming the $1,000,000 liability of FAME debentures and all farm organizations assuming some responsibility for interest payments. Mr. Ingles suggested that farm organizations should back this type of venture and thus eliminate the necessity of government backing in this connection.

The decision of such group was that no financial assistance could be given to FAME at that time owing to the conclusions derived from the information provided by such financial statements and at that meeting the following motion was passed:

"That the Committee inform the FAME Board the organizations represented here today are not prepared to give financial or managerial assistance to the FAME organization at the present time on the basis of the information at hand."

Co-Operative Union, realizing that FAME had depleted its financial resources, offered to make legal counsel available to FAME if they wished to avail themselves thereof.

At this meeting a motion was passed that all collateral notes held by the FAME office and all applications for shares or debentures received since December 7th, 1964, be returned to the issuer. A motion was also passed that the FAME Board make a formal request to the Ontario Government that they provide the necessary collateral through an investment company or companies, bank or banks, in order to obtain a first mortgage for one and a half million dollars on the F. W. Fearman plant for a period of ten years.

At a meeting of the Board of Directors on January 2nd a motion was passed in these words:

"That at this time the Board of Directors, representing the shareholders in the Province who have indicated support in this programme and want it to survive, hereby instruct our Executive Committee to re-negotiate the Fearman agreement in confidence that substantial financial support can be mobilized."

At the meeting of Directors held on January 5th the Chairman reported that discussions had been held with FAME's auditors and Solicitors regarding the alternative method of negotiating with Mr. Gunner and consideration was given to some basis of partnership with him, through which a division of the shares might be possible. He then gave a detailed explanation of the meeting with Mr. Gunner and the proposals placed before him. Mr. Gunner's attitude was that he was not interested in any form of partnership and indicated that an extension of time would not be given under the conditions as they existed at that time. He did, however, announce he would be willing to re-negotiate with FAME should they be in a position, financially, to make an offer during the next three month period.

Mr. Sheppard, the auditor of FAME, addressed this meeting and pointed out that FAME had three alternatives to consider which he outlined as follows: Firstly, they could back out of the meat packing business and take proceedings to recover as much of the one and a half million dollars as possible. Secondly, they could proceed to raise funds required to re-negotiate and take over the Fearman plant. Thirdly, they could attempt to find a buyer for such business. Mr. Sheppard indicated he favoured the proposal to raise funds and re-negotiate. He pointed out that to buy out Gunner on the contract as it stood, FAME must raise close to three and a half million dollars for the following purposes, namely, $1,000,000 to pay the promissory note, $1,000,000 to pay off mortgages on the Fearman property, an amount of approximately a half a million dollars Mr. Gunner had put into the company since August 31st, and approximately three-quarters of a million required for working capital.

At this time it was decided to hold a special general meeting of delegates open to any and all members and that a committee be appointed of

the Board to make recommendations regarding ways and means of raising funds to recover the Fearman Company's shares.

This special general meeting of the shareholders of FAME was held at Brampton on January 15th, 1965. Mr. Frey, the President, presided. Mr. Walton gave particulars of the moneys received by the company since July 1st, 1964, and its disposition and indicated a balance on hand of only $177. Mr. Sheppard gave the particulars of the moneys necessary to take over the Fearman shares indicating that at least $2 million would be necessary to put FAME in a position to do so.

At a meeting of the Board held on January 18th it was resolved that Messrs. Service, Anderson and Baker be authorized to meet the Copaco Board at their earliest convenience to discuss any plan practical and workable from their standpoint that would provide for joint business action with FAME; such committee to report back to the Board. At this time the Neustadt property was sold for $15,000. The proceeds were used to repay loans made by Directors to assist finance and the balance was applied on the note to the Mercantile Bank.

At a meeting of the Board held on February 16th the Chairman reported that a number of meetings of the Executive Committee had been held in an effort to study ways and means of carrying out the wishes of the members as well as studying what had transpired in the past. The Executive Committee, in studying the financial picture, was quite concerned about the daily problem of meeting financial commitments made in the past. The Chairman further reported that meetings had been held with O.F.A., Copaco and the Ontario Hog Producers Association which had proven very beneficial. It appeared quite evident that support would be forthcoming if relations with other farm groups improved. The discussions with Copaco had proven most fruitful. It was agreed that FAME and Copaco cannot compete with each other and that an effort should be made to work together and possibly amalgamate some time in the near future. At a meeting of directors on March 19th a resolution was passed as follows:

> "It was resolved that since Copaco and FAME believe in the same principles of farm owned processing; and since both are agreed that FAME and Copaco must proceed together with the ultimate goal of complete amalgamation; therefore we, the FAME Board of Directors, are prepared to implement whatever re-organization of FAME that is necessary, whether it relates to our Board, staff, trade names, etc., in relation to FAME and Copaco, FAME and Fearman's or Copaco and Fearman's, providing it is in the best interests of the livestock producers of this province and providing it is ratified by FAME's shareholders."

Ralph G. Staples, President of the Co-operative Union of Canada, writing under his pen name Ernest Page, on January 14th of this year, expressed the feeling of many Co-operative leaders in the following words:

"THOUGHTS ON FAME"

> There is a great deal we don't know about this subject. Perhaps it is too soon to write about it. There may still be hope that some of the

money invested in it can be salvaged from the wreck. But regardless of the final result some comments are possible and pertinent.

FAME (Farmers Allied Meat Enterprises Co-operative Limited) was a movement of protest rather than a co-operative approach to an economic need. The enlisting of members over much of southern Ontario could be explained in no other way. The apparent intent was to combat the monopolistic tendencies seen in the meat-packing industry. FAME leadership exhibited a strong sense of social injustice rather than business sagacity of the type required for an endeavour of high complexity.

FAME was quite unorthodox as a co-operative in its relationship with members. It could not serve its members as a co-operative should and for two reasons: hogs had to be purchased through the Ontario Hog Producers Marketing Board rather than marketed directly for the member; and moreover there was no real hope of promptly placing plants within reach of all the members even if the Board had not existed.

FAME was unacceptable to large elements of the co-operative movement in Ontario, and towards the end it became an outcast. Financially responsible and substantial elements decided to make no serious attempt to save it from disaster. Why? Because they had no confidence either in its leadership or in its programme and had apparently concluded that a wreck was inevitable.

(One could ask what was the proper role of government in the FAME disaster. With so many Ontario farmers faced with such a loss, would it have been too much to expect the government to place the plant under trusteeship and provide the necessary backing until the organization had found its feet?)

Surely it is apparent that the co-operative movement cannot afford this sort of debacle. No wonder there is lack of confidence in the co-operative idea. The movement simply must learn how to draw itself together to the point where it can consider proposed co-operative programmes in a comprehensive manner and indicate clearly those which have approval. This would stop most ill-considered schemes, but groups which might insist on proceeding with unapproved programmes of co-operative development would do so more cautiously; prospective supporters of such programmes would be more careful; and, most significant, the co-operative movement would have acted in a thoroughly responsible manner.

The autonomy and independence of the various units in the co-operative movement are a source of great strength—we would not see it otherwise. But it is necessary to ensure that independence does not mean irresponsibility. There are ways of achieving self-discipline which are not incompatible with freedom."

SUMMARY

The assets of FAME as of March 31st, 1965, were as follows:

Current Assets:			
Cash on hand and in banks			$ 1,454.84
Account receivable—Fame Brand Services			200.00
Due from F. W. Fearman Co. Ltd.			8,219.92
Security deposits			756.00
Total current assets			$ 10,630.76
Investment in Ontario Co-operative Credit Society, at cost			100.00
Property and equipment:			
Furniture and equipment at cost	$5,837.99		
Less accumulated depreciation	2,958.24		
		$2,079.75	
Leasehold improvements, at cost	475.04		
Less amortization	197.93		
		277.11	
56.41 acres of land at Ayr, purchased in 1962 for $55,000.00 (mortgaged for $25,000.00, as shown in liabilities);			
60 acres of land at Mariposa, purchased for $28,000.00, in part payment of which a debenture for $10,000.00 was issued to vendor (this property is mortgaged for $5,000.00, also shown in liabilities);			
Land at Mitchell, purchased at a cost of $10,000.00;			
Land at estimated present market value as shown in the statement		90,050.00	
			93,206.86
			$103,937.62

The liabilities of FAME as of March 31st, 1965 were as follows:

Current liabilities:		
Bank Loan (secured by personal guarantee of certain Directors)		$ 6,000.00
Accounts payable		39,669.11
Debenture interest accrued		43,876.00
Mortgage interest accrued		936.35
Directors' loans		2,150.00
Employees' payroll deductions		339.50
Total current liabilities		92,970.06
Mortgages payable:		
First mortgage 5% note, repayable $2,500 in 1967 and $22,500 in 1972	$ 25,000.00	
First mortgage 6½% note, repayable 1974	5,000.00	
		30,000.00
Debentures payable:		
Series A 5½%	220,000.00	
Series B 5¾%	54,500.00	
Series C 6%	766,400.00	
Total issued and fully paid	1,040,900.00	
Partial payments	150.00	
		1,041,050.00
Shareholders equity:		
Capital stock:		
Authorized:		
100,000 co-operative common shares of a par value of $100.00 each	10,000,000.00	
Issued and fully paid 14,272 shares of which 735 shares were issued during the period for cash	1,427,200.00	
Partial payments received for which shares have not yet been issued	6,988.00	
	1,434,188.00	
Contributed surplus	4,368.82	
	1,438,556.82	
Deficit	(2,498,640.16)	
		(1,060,083.34)
		$ 103,937.62

A statement of income and expenditure and deficit of the said Company for the nine months ended March 31, 1965, which included the deficit that existed on June 30, 1964, of $529,672.88, is as follows:

Directors' remuneration		$ 7,513.50
Dircetors' expenses		13,339.69
Professional services		16,654.14
Advertising and promotion		10,446.50
Officers' salaries and expenses		13,993.25
Office salaries		5,791.10
Salesmen's commissions and expenses		25,732.57
Fieldmen's remuneration and expenses		9,715.61
Rent		6,444.00
Telephone and telegraph		3,964.43
Miscellaneous expenses		3,140.80
Hydro		667.53
Expenses of proposed bond issue		654.55
Depreciation—furniture and equipment		508.19
Amortization of leasehold improvements		102.92
County meeting expenses		514.09
Shareholders' meeting expenses		340.49
Miscellaneous taxes		14.35
Bank interest and charges	$ 1,765.95	
Mortgage interest	1,285,65	
Debenture interest	43,876.00	
		46,927.60
Proposed plants—professional fees and other expenditures		258,571.46
Trademark expense		1,288.75
Loss on disposal of Neustadt property		1,646.07
Loss on investment in F. W. Fearman Co. Ltd.		1,528,086.05
		1,956,057.64
Less interest on short term deposits		7,523.98
Net expenditure		1,948,533.66
Deficit at June 30, 1964		529,672.88
Provision for revaluation of land		17,558.62
Adjustment for professional fees—prior year		2,875.00
Deficit at March 31, 1965		2,498,640.16

The cost of selling shares and debentures of the Company was grossly excessive. If the assistance of other farm groups had been enlisted for this purpose early in the formation of the Company, it would have expedited the financing of the Company and rendered unnecessary the expensive arrangement of placing the same in the hands of paid agents. The advertising and the literature associated with such sales tended to raise doubts in the minds of many people by reason of its grossly optimistic nature. In some cases there was misrepresentation by the salesmen in respect of the debenture sales. Usually the form of deception was to the effect that such securities were guaranteed by the government and they could be cashed at

any time. Sales were obtained by such means as late as November 25th. In view of the financial position of the Company at this time, the sale of such securities ought not to have been left in the hands of agents.

Directors' meetings involving usually the travelling expenses of all Directors were held too frequently and created an unwarranted expenditure. At many of the meetings held, detailed matters only were dealt with which could readily have been entrusted to the Executive Committee.

The purchase of the shares of the F. W. Fearman Company Limited was a completely unsound business undertaking, made without proper consideration as to the value thereof, the loss record of such company or the ability of FAME to procure the funds for payment of the balance of the purchase price. It displayed a complete bankruptcy of business ability on the part of the majority of the Board of Directors. The President of the Company, Charles W. McInnis, must be held primarily to blame for the mistakes and irregularities associated with such purchase. He purposely refrained from seeking the advice of FAME's auditors in connection with such purchase or informing them thereof and deprived the Board of Directors of such professional guidance. He knew that such Company had been for some considerable period of time and still was, operating at a considerable loss but misled the Board of Directors by assuring them that it was then at a point where such losses had ceased. Although he knew that the Fearman Company was heavily indebted to the Bank of Nova Scotia and that such liability was to be a continuing liability, he made no attempt prior to closing the transaction to secure the assurance of such Bank that it would continue such loan or advance sufficient to allow the reorganized company to carry on its usual business. With the exception of a few Directors, the balance of the Board exercised no judgment of their own, but blindly followed the dictates of McInnis. The latter dissociated himself with anyone giving advice contrary to his ambitions but surrounded himself with advisors who yielded to his opinions in any matter. The Treasurer, Walton, knew the extravagance that was present in the raising of the Company's funds, the undesirable financial position of Fearman and the financial difficulties that were present in meeting obligations to the Bank and to the payment of the balance of the purchase price. It was his obligation as Treasurer to have advised the Board of these problems but he chose to adopt the course of allowing the President to carry on unchallenged. Troy likewise knew of the extensive cost of the plans he was preparing and that the delay in commencing construction of a processing or slaughtering plant was causing severe distrust and disappointment with many members. He chose however to carry on with a course that cost the Company extensive money and did not benefit it. His unrealistic prophecy of extensive profits to be made in the industry was the type of information McInnes had been using in his addresses to farm groups. Troy was kept on the payroll of FAME long after his services should have been dispensed with. Information vital to judge of the proper action to be taken in relation to such purchase was deliberately withheld from the Directors. This was done with the purpose of consummating the acquisition of such shares before sufficient opposition thereto could be developed. The situation which made it appear to the President that this course of action was justified on his part was brought about by the opposition that was constantly mounting against FAME. There was severe criticism of extensive spending of the moneys raised without any tangible results to show for it. Sufficient

funds were not available either from sale of shares, debentures or mortgage loans to proceed with the expensive construction planned by Troy. If something were not done in the way of implementing FAME's ideal of processing its members' meat products in the very near future, it would be difficult to attempt to carry on. In this atmosphere, when the opportunity of purchasing the shares of Fearman presented itself, the matter was rushed through excluding information from that small group of the Directors who displayed opposition to purchasing the same without proper investigation or preparation.

McInnes and Bourdon made many abortive attempts to obtain assurance of a loan against the Fearman property sufficient to provide funds to pay the balance of the purchase price and to provide necessary capital to carry on the business. These efforts to secure such moneys were made both before and after the closing of the transaction on August 31st. In none of such attempts had any definite assurance ever been given that such a loan would be made. It must have been apparent that the probabilities of securing such an advance were very remote. Despite this knowledge, the President continually advised the Board of Directors that such efforts were progressing satisfactorily and that the funds would be available. The first occasion on which he informed the Board that the funds had not been secured was December 1st.

The Building Committee had no proper authority to authorize purchase of such shares on the 31st day of July because the condition imposed by the Board of Directors to the effect that satisfactory financial arrangement should first be made was never accomplished. No authority was ever given by the Directors to hypothecate the shares so purchased as security for the million dollars still owing. Such arrangement was risky and unbusiness-like. It must have been apparent that FAME would lose such shares and control of the Company when the note for one million dollars became due on November 30. I am convinced however that McInnes thought only shares of the par value of one million dollars were so pledged and that the balance of the Directors were so advised by him and believed that to be a fact when the purchase was approved by the Board of Directors on August 27.

It is unfortunate that the few Directors who saw the folly of the situation did not take more forcible steps to forestall the signing of the agreement on August 24th and the closing thereof on the 31st. A complaint to the Solicitors acting for FAME that the Building Committee and McInnes had no authority from the Board of Directors to make such purchase in the manner contemplated would have demanded investigation that should have averted this ill advised form of closing the purchase of such shares.

I am satisfied however that, even if funds had been available to pay such note on November 30, the Fearman business could not have been carried on successfully. The overhead associated with the financing project was too great to be carried by the volume of business that could be handled in such plant and those Directors of FAME who constituted the new Fearman Board were without adequate business experience or ability to manage the same successfully. The Fearman financial position would have to be constantly supplemented by assistance from FAME. If further debentures

had been sold by the latter Company in the amount contemplated by its program, the eventual loss would have been much greater than it has been.

The cost of now reclaiming the shares of the Fearman Company from Gunner is estimated as follows:

Note in default		$1,000,000
Reduction in purchase price on the basis of the difference between the equity at June 6, 1964 and August 29, 1964		(79,970)
Investment by Mr. Gunner since August 29, 1964		
September 1964	$300,000	
January 1965	200,000	
		500,000
Accrued interest from August 31, 1964—June 30, 1965 approximately		60,000
Bank loan (bank will probably call loan if FAME takes control of F. W. Fearman Co. Ltd.) approximately		660,000
		$2,140,030
		(Plus an undetermined portion of the $1,000,000 Gunner mortgages)

Retaining the shares and taking control of the Company does not make Mr. Gunner the absolute owner of the shares in question. The agreement of hypothecation provides that in default he is authorized to sell such shares and to apply the net proceeds thereof on payment of such note. He is therefore obliged to offer such shares for sale. Any surplus that he may recover over and above what is owing to him by FAME, including any moneys properly paid out by him in the operation of such business since December 1st, must be repaid to FAME. In view of the amount owing under the agreement of purchase and such amounts paid by Gunner to assist FAME in carrying on, it is doubtful if any substantial amount will ever be recovered from this source.

FAME has not conducted its affairs in accordance with Part V of The Corporations Act, R.S.O. 1960, chapter 71. In the first instance, the manner of selling debentures before shares in the Company was not in accordance with the principles of a true Co-operative. The purchase of the shares of Fearman created the situation that all FAME's assets were secured in the ownership of shares in a public company purportedly operating for profit and not established under Part V of such Act. In such position it cannot operate as a Co-operative organization and it is without the privileges especially provided for such a company by Part V of such Act.

During the course of its attempted financing program, the Officers of FAME alienated the goodwill of the other farm organizations who were at first willing to assist in promoting the ideals that farmer owned co-operatives purported to champion. Such other groups quite justifiably acquired serious doubts as to the judgment and business ability of those in charge of FAME. This feeling of uncertainty developed to greater proportions by reason of the refusal of FAME to give information as to its progress and

plans or to meet and discuss ways and means of achieving success with other co-operative groups. By August of 1964 FAME had few organized farm groups that had continued to retain faith in its ability to carry on successfully. In the farming community however, as distinguished from the officials of the organizations, there were still many who had implicit faith in the organization and its officials. Even subsequent to this Inquiry, which revealed many facts not previously known to the public generally, there were many who still unjustly put the blame for FAME's failure on other farm organizations.

After December 1st, when the failure of FAME became known, many other farm organizations were willing to do what they could to carry out the purpose for which FAME was intended. At first their attention was directed towards raising sufficient moneys from farm organizations and members thereof to pay the balance owing to Gunner so that FAME could complete its purchase and carry on business at the Fearman plant. $66,000.00 was sent in by interested parties during the month of December, but was held in trust and when sufficient funds were not realized from this source, the same was returned to those advancing it. Careful investigation, however, has established to their satisfaction that the purchase had not been a wise venture in the first instance and that the financial obligations still involved under the purchase were such that it was doubtful if the business could support the finances required.

Some wanted the other farm organizations to assume payment of the $1,041,000 debentures issued by FAME. This suggestion was advanced to preserve the good name of farm associations. However the final decision of the other groups was to refrain from giving financial or managerial assistance to the FAME organization on the basis of the information they had received.

The present officials of FAME have vastly improved their relationship with other farm groups and are hopeful that some arrangement might be made with the assistance of, or amalgamation with Copaco whereby on a revised basis, the purchase of the Fearman plant might be completed and that establishment used in a joint co-operative meat processing project.

It is now realized that in the processing of meat there is no room for competition among co-operatives and that such a venture should be under the management and control of one organization. Such a plan would reduce the cost of management. It would also establish a greater unified force in providing competition and price maintenance in the area of purchasing livestock from the farmer. It would further enhance the continuity of steady markets for its finished product. It is also now appreciated that such a business does not prosper simply because it is a co-operative and has many members who will direct their livestock to its production. Business experience and ability in its management are essential to success in this highly competitive field of industry. It is recognized that in recent years there has been a steady growth in the co-operative marketing of other farm products in Ontario and particularly in poultry and dairy. In the area of processing livestock and marketing it to the ultimate consumer, there appears to be a need of more capital and the risk of making a profit is vastly increased. There are many members of FAME who realize that its failure is not an indication that the processing and marketing of such

products by a co-operative group of producers is impracticable. They do not propose to allow the mistakes that were made to deter them. There is a determination that despite the experience of FAME, attempts should be made to extend the processing of livestock so that it will be a decided force in maintaining the price of livestock at a steady and proper level in this Province. There is justification for their ambition if the efforts to do so are guided by sound and business-like leadership and with the knowledge that a co-operative must not attempt to process all the product. Private enterprise is also essential to provide adequate markets for the farmer's products. It would be a great mistake to allow co-operatives a monopolistic grip on such industry. The latter will serve their members better by controlling such a proportion thereof as to provide adequate competition in the field.